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# SOCIAL SECURITY AMENDMENTS OF 1977

## REPORT OF THE COMMITTEE ON FINANCE

U.S. SENATE

ON

H.R. 5322

together with

MINORITY AND ADDITIONAL VIEWS

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## SOCIAL SECURITY AMENDMENTS OF 1977

NOVEMBER 1 (legislative day, OCTOBER 29), 1977.—Ordered to be printed

Mr. LONG, from the Committee on Finance, submitted the following

### REPORT

together with

### MINORITY AND ADDITIONAL VIEWS

[To accompany H.R. 5322]

The Committee on Finance, to which was referred the bill (H.R. 5322) to provide duty-free treatment for istle, having considered the same, reports favorably thereon with an amendment and an amendment to the title and recommends that the bill as amended do pass.

### I. SUMMARY

The bill (H.R. 5322), as amended by the committee, would restore the social security programs of old-age, survivors, and disability insurance to financial soundness in both the short range and the long range, would increase the amount of earnings an individual can have without any reduction in social security benefits, and would make other modifications in the social security program as described below.

#### *Social security financing*

The committee bill includes several provisions designed to improve the financial status of the social security cash-benefits trust funds which, under present law, face serious deficit situations both over the long run and in the next several years. In combination, the financing provisions in the committee bill will result in a cash-benefits program which by 1990 will build up the trust fund balances to an acceptable level of 50 percent of 1 year's outgo. Over the traditional long-range actuarial valuation period of 75 years, the program has a favorable actuarial balance of +0.06 percent of taxable payroll under the committee amendments.

*Revised benefit formula for future retirees.*—A substantial part of the long-range social security deficit under present law results from unintended effects of the automatic cost-of-living increase mechanisms adopted in 1972. The committee bill makes the existing law cost-of-living increase provisions apply only to individuals who are already on the benefit rolls at the time each increase occurs. A new automatic adjustment mechanism will apply to the benefit formula for new retirees. This new formula will avoid the overindexing which was characteristic of the present-law formula. Under the new formula, persons retiring in the future will have their benefits determined on the basis of their previous wages after those wages have been adjusted to reflect changes in wage levels occurring after the wages were earned. This approach is generally referred to as wage indexing. The formula adopted is designed to maintain benefit levels as a percent of pre-retirement earnings at approximately the same ratio as applied in the case of persons who retired in 1976.

*Increase in amount of earnings subject to employer tax.*—Under existing law, the employer share of the social security payroll tax is collected on the first \$16,500 earned by each employee. This amount increases automatically in future years as wages rise and is expected to increase to \$17,700 in 1978. The committee bill would raise the base for employer taxes to \$50,000 starting in 1979. The base will remain at \$50,000 through 1984 and then increase to \$75,000 in 1985. This amount would not be increased after 1979, as under present law, to reflect yearly increases in average wage levels. Instead, it will remain at \$75,000 until early in the next century. Shortly after the turn of the century, the amount of annual earnings subject to the employee tax will have increased to \$75,000 under the automatic increase provisions of present law. At that time, the employee and employer bases will again be equal. Thereafter, both bases will rise together as under present law when wage levels in the economy rise.

Increasing the amount of wages subject to social security taxes would also result in a similar increase under the railroad retirement program. Because railroad employers pay an additional tax of 9.5 percent which goes to support the part of the railroad retirement program that is essentially a staff retirement program, the committee bill provides that the 9.5-percent tax will continue to be paid on the same amount of earnings that would be taxed under present law while the increased employer tax base would apply only to that part of the employer tax rate which is equivalent to the social security tax rate.

*Increase in amount of earnings subject to employee (or self-employed) tax.*—In addition to increasing the amount of wages subject to the employer tax, the committee bill would increase the amount of annual earnings subject to the employee or self-employment tax. Under the provision, there will be four \$600 increases over present-law levels in 1979, 1981, 1983, and 1985. As under existing law, the tax base for employees and self-employed persons will also be automatically increased as wage levels rise. The table below shows the projected tax bases under this amendment.

# AMOUNT OF EARNINGS SUBJECT TO EMPLOYEE/SELF-EMPLOYED TAX

Years	Present law	Committee amendment
1978.....	\$17,700	\$17,700
1979.....	18,900	19,500
1980.....	20,400	21,000
1981.....	21,900	23,100
1982.....	23,400	24,600
1983.....	24,900	26,700
1984.....	26,400	28,200
1985.....	27,900	30,300

*Tax rate increase.*—The committee bill also modifies the social security tax rate schedules to bring in additional revenue. In order to bring in the revenue in a manner related to the projected outgo of the system, the modified tax rate schedule provides for a series of increases occurring in different years starting with 1979. The tax rate increases result in a revised tax rate schedule as shown in the table below. The changes in the hospital insurance (HI) rates shown in the table will, in combination with the tax base changes also included in the bill, leave the HI fund in close to the same position as it would be under existing law.

## SOCIAL SECURITY TAX RATES ON EMPLOYER AND EMPLOYEE (EACH)

[In percent]

Years	Present law			Committee amendment		
	OASDI	HI	Total	OASDI	HI	Total
1977.....	4.95	0.90	5.85	4.95	0.90	5.85
1978.....	4.95	1.10	6.05	5.05	1.00	6.05
1979-80.....	4.95	1.10	6.05	5.085	1.05	6.135
1981-84.....	4.95	1.35	6.30	5.35	1.25	6.60
1985.....	4.95	1.35	6.30	5.65	1.35	7.00
1986-89.....	4.95	1.50	6.45	5.65	1.40	7.05
1990-94.....	4.95	1.50	6.45	6.10	1.40	7.50
1995-2000.....	4.95	1.50	6.45	6.70	1.40	8.10
2001-10.....	4.95	1.50	6.45	7.30	1.40	8.70
2011 and after....	5.95	1.50	7.45	7.80	1.40	9.20



*Increase in tax rate for self-employment.*—When earnings from self-employment were made subject to the social security tax in 1950, the rate was set at  $1\frac{1}{2}$  times the employee rate. At that time the employee rate was 1.5 percent and the self-employment rate was 2.25 percent. Over the years as tax rates were increased, the  $1\frac{1}{2}$  to 1 ratio was maintained until 1973 when the cash-benefit tax rate for the self-employed was frozen at 7 percent. (When the hospital insurance program was established the self-employment rate for that program was made equal to the employee rate and has remained equal as the rate has increased.) The committee bill would restore the self-employment tax rate for cash benefits to the original ratio of  $1\frac{1}{2}$  times the employee rate effective in 1981.

*Refund of taxes paid by State and local governments and by non-profit organizations.*—The bill would authorize an appropriation from general revenues to provide State and local governments and nonprofit organizations a partial refund of social security taxes. The refund would be equal to 50 percent of the difference between the employer social security tax paid with respect to an individual and the amount of tax paid by the employee.

#### *Other social security provisions*

*Benefits for dependent spouses.*—The committee bill would reduce benefits payable under social security to dependent spouses—including surviving spouses—by the amount of any civil service (Federal, State, or local) retirement benefit payable to the spouse. The provision would apply only to individuals applying for spouses' social security benefits in the future and only if the dependent spouse had a civil service pension based on his or her own earnings in public employment which was not covered under the social security system.

*Modification of retirement test and financing of the provision.*—Social security beneficiaries who are under age 72 have their benefits reduced if their earnings exceed a certain amount which is adjusted annually to reflect changes in average wage levels. The amount which may be earned with no reduction in benefits is \$3,000 in 1977 and is expected to increase to \$3,240 in 1978 and to \$3,480 in 1979. The committee bill would increase these levels to \$4,500 in 1978 and to \$6,000 in 1979. After 1979, the \$6,000 level would increase automatically as wage levels rise. (The 1978 increase would be applicable to the entire year but any additional benefits resulting from the change would not become payable until after September 30, 1978.) The committee bill would also increase the social security tax rate applicable to employers and employees, effective January 1, 1979, by the amount needed to fund the cost of the higher retirement test levels. These tax rate increases are incorporated in the tax schedule printed above.

*Increased benefits for certain widows.*—Social security benefits for individuals who continue working past age 65 are increased under present law by 1 percent for each year prior to age 72 that the worker did not receive his benefits. This delayed retirement increment which is added to the individual worker's benefit when he does retire or reach age 72 presently applies only to the worker's own benefit and is not passed through to his survivors. Under the committee bill, any such increment would also be added to the benefit payable to the widow or widower of such an individual.

*Elimination of certain dual taxation requirements.*—Under existing law, businesses are ordinarily required to pay social security taxes and Federal unemployment taxes with respect to a given employee only up to the amount of annual wages referred to as the tax base. (Under a provision described above, the tax base for the employer share of the social security tax would be increased to \$50,000 effective in 1979 and to \$75,000 in 1985. The base for Federal unemployment taxes is \$6,000 after 1977.) Where a business is organized as a group of related corporations, however, an employee of any one of those corporations who performs services for more than one of them is treated for employment tax purposes as though he were employed by each of the corporations for which he performs services. Consequently, if his wages exceed the tax base, social security and unemployment taxes may be required to be paid in excess of the wage base. The employer share of these taxes over the wage base is not refunded. Under the committee bill, social security and unemployment taxes in excess of the tax base would not be paid in this type of situation starting in 1979.

*Delivery of social security checks.*—The committee bill would require timely delivery of social security checks when the normal delivery day falls on a weekend or legal holiday. Under present procedures, checks are generally delivered on the third of each month. In some cases when the third falls on a weekend or public holiday, the beneficiary may not receive—or may be unable to cash—the check until after the third. Under the committee bill, whenever the third of the month falls on a weekend or legal holiday, social security checks would be delivered on the Friday before the weekend—or on the day preceding the holiday. A similar rule would apply to checks under the supplemental security income (SSI) program which are ordinarily delivered on the first of the month.

*Limitation on retroactive social security benefits.*—Persons applying for social security benefits are now allowed to elect to receive benefits for up to 12 months prior to the month in which they file an application. If these months are months prior to age 65, however, the retroactive benefits are obtained at the cost of a lower permanent benefit amount since benefits paid before age 65 are actuarially reduced. Under the committee bill, retroactive reduced benefits generally would not be permitted in cases involving entitlement before age 65. This would create a short-range savings and reduce fiscal year 1978 costs by \$0.3 billion. ✓

*Benefit increases as applied to reduced benefits.*—Under the automatic cost-of-living benefit increase provisions, some persons on the rolls, through a technicality, receive an increase which is larger than the increase in the cost of living. This occurs because the percentage increase is applied not to the actual benefit amount but to the basic benefit rate (called “primary insurance amount”) which represents what would be paid to a retired worker if he began drawing benefits at age 65. If an individual begins getting benefits prior to age 65 and therefore accepts an actuarially reduced benefit rate, subsequent benefit increases will be larger than is necessary to keep that benefit up to date with increases in the cost of living.

The committee bill would modify the cost-of-living increase mechanism so that all persons on the rolls at the time of an increase would receive the same percentage increase applied to their actual benefit amounts.



*Study of spouse's benefits.*—The committee bill would require the Secretary of Health, Education, and Welfare, in consultation with the Justice Department Task Force on Sex Discrimination, to study and report on proposals to eliminate dependency as a factor in the determination of entitlement to spouse's benefits under the social security program, and proposals to bring about equal treatment of men and women under the program, taking into account the practical effects (particularly the effect upon women's entitlement to such benefits) of such things as changes in the nature and extent of women's participation in the labor force, the increasing divorce rate, and the economic value of women's work in the home.

*Study of consumer price index.*—The committee bill also requires the Secretary of Labor, in consultation with the Secretary of Health, Education, and Welfare, to study the need to develop a special consumer price index for the elderly.

*International social security agreements.*—The committee bill would authorize the President to enter into agreements with other countries to coordinate the social security protection provided for people who work under the social security programs of the United States and another country. Agreements negotiated by the President would be submitted to Congress together with a report explaining their impact on program costs. If neither House passes a resolution of disapproval, the agreement could go into effect 90 days after the date of submission to Congress.

*Nonprofit organization.*—The committee bill contains provisions which would modify the provisions of Public Law 94-563 as it relates to the tax liabilities of certain nonprofit organizations which paid social security taxes without filing the waiver certificates required by the law and which under Public Law 94-563 are deemed to have filed such certificates.

*Temporary administrative law judges.*—The bill contains provisions which provide that certain temporary administrative law judges appointed to hear SSI claims some years ago will be appointed as regular administrative law judges in recognition of the experience they have had in the temporary positions.

*Social security advisory council.*—The committee bill extends the reporting date for the next Advisory Council on Social Security. Under existing law, the report is due to be filed by January 1, 1979. The committee amendment allows an additional 9 months (until October 1, 1979) for the completion of this report.

#### *Welfare provisions*

*Fiscal relief for State and local welfare costs.*—The committee bill provides \$400 million in additional Federal funding of welfare costs as a means of providing fiscal relief to State and local governments for fiscal year 1978. Each State would receive a share of that total on the basis of a two-part formula. Half of the fiscal relief funds would be distributed to each State in proportion to its share of total expenditures under the program of aid to families with dependent children (AFDC) for December 1976, and half would be distributed under the general revenue sharing formula.

In some States, local units of government are responsible for meeting part of the costs of the AFDC program. The fiscal relief pay-

ments to those States under this provision would have to be passed through to local governments. However, States would not be required to pass through an amount in excess of 90 percent of the amount of the welfare costs for which the local government was otherwise responsible.

*Quality control and incentives to reduce errors.*—The committee amendment would establish a program of fiscal incentives as part of the AFDC quality control program to encourage States to reduce the level of their dollar error rates with respect to eligibility and overpayment, of aid paid under the approved State plan. Instead of applying sanctions on the States, the dollar error rates would be used as the basis for a system of incentives, which would give the States motivation for expanding their quality control efforts and improving program administration. Under the amendment, States which have dollar error rates of, or reduce their dollar error rates to, less than 4 percent but not more than 3.5 percent of the total expenditures would receive 10 percent of the Federal share of the money saved, as compared with the Federal costs at a 4-percent payment error rate. This percentage would increase proportionately as shown in the following table:

	The State would retain this percent of the Federal savings
If the error rate is:	
At least 3.5 percent but less than 4 percent.....	10
At least 3 percent but less than 3.5 percent.....	20
At least 2.5 percent but less than 3 percent.....	30
At least 2 percent but less than 2.5 percent.....	40
Less than 2 percent.....	50

*Demonstration projects.*—The committee bill broadens and makes more explicit the provision of present law relating to State demonstration programs. The objectives of the new demonstration authority would be to permit States to achieve more efficient and effective use of funds for public assistance, to reduce dependency, and to improve the living conditions and increase the incomes of persons who are on assistance—or who otherwise would be on assistance. These objectives would be achieved through experiments designed to make employment more attractive for welfare recipients.

This provision is similar in intent to an amendment approved by the Senate in 1973. It would limit States to not more than three demonstration projects. One of the projects could be statewide, and none of the projects could last for more than 2 years. The amendment would permit States to waive the requirements of the AFDC program relating to (1) statewideness; (2) administration by a single State agency; (3) the earned income disregard; and (4) the work incentive program. The State could request a waiver of any or all of these requirements on its own initiative. The waiver would be considered approved at the end of 45 days unless the Secretary disapproved it within this 45-day waiting period.

The provision would allow States to use welfare funds to pay part of the cost of public service employment, which would have to meet

specified conditions. Participation in the demonstration projects would be voluntary. Costs of the projects would be eligible for the same matching as other AFDC costs, with the limitation that the amount matchable with respect to any participant in the project could not exceed the amount which would otherwise be payable to him under AFDC. Thus, it is estimated that the projects would not result in any increased Federal expenditures.

*Access to wage information for AFDC verification.*—The committee bill would improve the capacity of States to acquire accurate wage data by providing authority for the States to have access to earnings information in records maintained by the Social Security Administration and State employment security agencies. Such information would be obtained by a search of wage records conducted by the Social Security Administration or employment security agencies to identify the fact and amount of earnings and the identity of the employer in the case of individuals who were receiving AFDC at the time the earnings were received. The Secretary of Health, Education, and Welfare would be authorized to establish necessary safeguards against improper disclosure of the information. Beginning October 1979, the States would be required to request and use the earnings information made available to them under the committee amendment.

*Earned income disregard.*—Under present law States are required, in determining need for aid to families with dependent children, to disregard the first \$30 earned monthly by an adult, plus one-third of additional earnings. Costs related to work—such as transportation, child care, uniforms, and other items—are also deducted from earnings in calculating the amount of the welfare benefit.

The committee bill requires States to disregard the first \$60 earned monthly by an individual working full time—\$30 in the case of an individual working part-time—plus one-third of the next \$300 earned plus one-fifth of amounts earned above this. Child care expenses, subject to limitations prescribed by the Secretary, would be deducted before computing an individual's earned income. Other work expenses could not be deducted.

## II. GENERAL DISCUSSION OF THE BILL

### A. SOCIAL SECURITY FINANCING

*The need for legislation.*—Over the years the committee and the Congress have devoted a considerable amount of time and effort to social security financing in order to assure that funds will be available to meet benefit payments as they fall due. Whenever benefit improvements have been enacted, the committee has recommended, and the Congress has provided, financing arrangements that, based on the best available economic and demographic assumptions, seemed to assure the financial soundness of the program over the long-range future.

The 1977 report of the Trustees of the social security trust funds showed for the fourth consecutive year that the social security cash benefits programs—old-age, survivors and disability insurance or OASDI—were inadequately financed in both the near-term and the long-range future. In addition, the hospital insurance program (HI) was described as being adequately financed over the next 5 years but



with a tax rate schedule which would not finance the program over the long run.

It has been noted that the decline in the actuarial status of the trust funds began with the adoption of the automatic cost-of-living increases in benefits. While it is true that a substantial part of the long-term deficit is caused by the cost-of-living increases, this is because the assumptions made in 1972 as to future demographic changes and the relationship between rises in wage levels and increases in the CPI are now considered to have been excessively optimistic. As a result, the increases in wage levels have not paid (as was assumed in 1972) for the cost-of-living increases in benefits.

When the Congress last enacted major social security legislation, in 1973, the estimates of the cost of the cash-benefits programs were based on the assumption that the ultimate fertility rate would be 2.55 children per woman. By 1973, it was probably more reasonable to assume that the ultimate rate should be one which would approach zero population growth (about 2.1 children per woman). Subsequent cost estimates were based on lower fertility rates. The initial reduction came in 1974 when a rate of 2.1 was assumed and a further reduction was made in 1976 when an ultimate fertility rate of 1.9 was used for the 1976 assumptions.

As for the economic assumptions made for 1973, the most significant were that after 1977 average earnings would increase at an annual rate of 5 percent while the CPI would increase at  $2\frac{3}{4}$  percent a year. Even at the end of 1973, this seemed a dim prospect, and the 1974 estimates were based on the assumption that the annual rise in the CPI would average 3 percent a year. The effect of this change, however, was offset to some degree by eliminating an 0.375 percent additional cost which had been included as a "safety factor" for years prior to 2011 in the 1973 estimates. By 1976, the assumptions had been changed to a 5.75 percent annual rise in average wages and a 4 percent annual rise in the CPI.

The long-range economic assumptions used for the 1977 estimates are basically those used for the 1976 estimates. Significant changes though, were made in the mortality and fertility assumptions. Mortality was assumed to improve, thus raising the cost of the program by 0.64 percent of taxable payroll. This increase in cost was offset by assuming that the fertility rate would rise to 2.1 (the approximate rate at which the population eventually would neither grow nor decline).

*The committee bill.*—In order to eliminate both the short-range deficits and the longer range deficit, the committee bill includes changes in the way benefits are computed, increases in social security tax rates for employees, employers, and the self-employed, increases in the contribution and benefit base for employees and the self-employed and for employers, and a reallocation of income between the disability insurance program and the other cash-benefits programs.

In the short term, 1978-87, the changes in the committee bill turn an estimated cumulative deficit for the OASDI program of \$173 billion in 1987 into a positive balance of \$102.5 billion. The added financing for the cash-benefits program also has a small impact on the funding of the medicare program. Table 1 shows the status of the trust funds over the next 10 years under existing law and under the committee bill.

TABLE 1.—STATUS OF SOCIAL SECURITY TRUST FUNDS UNDER PRESENT LAW AND COMMITTEE BILL  
[Dollars in billions]

Year	Present law				Committee bill <sup>1</sup>			
	Income	Outgo	Net change	Start of year fund as percent of outgo in year	Income	Outgo	Net change	Start of year fund as percent of outgo in year
A. CASH BENEFITS PROGRAM								
1977.....	\$82.1	\$87.6	-\$5.5	47	\$82.1	\$87.6	-\$5.5	47
1978.....	90.7	97.6	-7.0	36	92.4	97.7	-5.4	36
1979.....	99.6	107.4	-7.8	27	108.0	108.1	-.1	28
1980.....	108.9	117.9	-9.0	18	119.6	118.5	1.0	25
1981.....	117.4	128.9	-11.5	9	136.1	128.8	6.4	24
1982.....	125.2	140.1	-14.9	( <sup>2</sup> )	147.1	139.1	8.0	28
1983.....	132.9	152.0	-19.2	( <sup>3</sup> )	157.4	150.0	7.7	31
1984.....	140.7	165.1	-24.4	( <sup>3</sup> )	168.5	161.9	6.6	33
1985.....	148.4	179.2	-30.8	( <sup>3</sup> )	190.7	174.7	16.1	35
1986.....	156.2	194.4	-38.1	( <sup>3</sup> )	205.3	188.2	17.1	41
1987.....	164.4	210.5	-46.1	( <sup>3</sup> )	219.3	202.6	16.7	46

# B. HOSPITAL INSURANCE PROGRAM

1977.....	\$16.1	\$16.2	-\$0.1	\$10.5	66	\$16.1	\$16.2	-\$0.1	\$10.5	66
1978.....	20.9	19.0	1.9	12.4	55	19.2	19.0	.2	10.7	55
1979.....	23.4	22.2	1.2	13.6	56	23.4	22.2	1.2	11.9	48
1980.....	25.6	25.7	-.1	13.4	53	25.9	25.7	.1	12.0	46
1981.....	33.2	29.7	3.6	17.0	45	32.7	29.7	3.0	15.0	40
1982.....	36.2	33.9	2.3	19.3	50	35.4	33.9	1.5	16.5	44
1983.....	38.6	38.5	.1	19.4	50	37.8	38.5	-.8	15.8	43
1984.....	41.0	43.7	-2.6	16.7	44	40.0	43.7	-3.7	12.1	36
1985.....	43.3	49.1	-5.9	10.9	34	45.6	49.1	-3.5	8.6	25
1986.....	50.2	54.9	-4.7	6.2	20	50.2	54.9	-4.7	3.8	16
1987.....	53.6	61.2	-7.6	-1.4	10	53.0	61.2	-8.2	-4.3	6

<sup>1</sup> Includes committee decisions on both tax and benefit provisions. The committee has adopted the administration's estimate of the savings from the administration proposal regarding benefits for dependent spouses as the estimated savings from the related committee amendment offsetting government-employee pensions against such pensions.

<sup>2</sup> Less than \$0.05 billion.

<sup>3</sup> Fund exhausted.

<sup>4</sup> Reaches 50% by 1990.



Over the long-range 75-year valuation period, estimates that seem reasonable at this time show that the amendments made by the committee bill would result in a small "actuarial" surplus of 0.6 percent of taxable payroll. As indicated in the actuarial section of this report, it is desirable for financing legislation to bring the program as close as possible to exact actuarial balance—leaving, if anything, a slight surplus as a margin of safety. The amendments proposed by the committee would achieve this objective.

In designing the financing scheme to reach this long-term objective of actuarial soundness, the committee also took into account the short-range financial needs of the system and the need to build the trust funds to a level where they would be able to sustain the programs should the Nation again be faced with adverse economic conditions such as those which prevailed for the middle part of this decade. Although the committee bill will not build the fund to the needed level (a balance which does not fall below an approximate 6 months expenditures) as quickly as the committee would wish, it does reach that level by 1990. The committee believes that this is a reasonable period within which to rebuild the reserves, and that a more rapid build-up would require tax increases of a level that could jeopardize continuing economic recovery.

#### THE TAX BASE

(Sections 101 and 102 of the Bill)

*The employer tax base.*—The traditional approach to financing the social security cash-benefits programs has been to levy an equal tax on employers and their employees. In considering how best to raise the funds necessary to the short-term financial soundness of the system without at the same time providing an intolerable tax burden either now or in the future, the committee, in a sense, determined to break with tradition by imposing a greater direct tax on employers than on employees. One reason for doing this is that social security benefits are based on individual earnings taxed and increases in the amount of employee earnings taxed raises additional income in the early years but over the long-term increases benefit costs so that much of the additional income is spent in later years. Employer taxes, on the other hand, do not increase the amount of earnings used to compute individual benefits. As a result, the additional income in the early years continues into the future without being offset by future benefit liabilities.

In deciding to increase the amount of earnings taxed to employers, the committee considered a number of levels (including taxing total payroll) and, with the aid of the actuaries, determined that the total package it had in mind could best be financed if the amount were to be increased to a maximum of \$50,000 for each employee starting in 1979. The employer base would remain at \$50,000 through 1984 and then would increase to \$75,000 starting in 1985. There would be no automatic increases thereafter (as under present law) related to future increases in wage level until about the turn of the century when the employee and employer bases have both risen above \$75,000. When the employee base does reach a level above \$75,000, the two bases would once again be equal. Thereafter they would both rise together as wage levels in the economy increase.

The committee's decision to raise the employer base will affect the taxes paid by employers to support the Railroad Retirement program. The Railroad Retirement Act of 1974 provides a two-tier benefit with Tier-I providing what is essentially a social security benefit financed by an employer-employee tax that is tied to the social security tax base and tax rates. Tier-II, on the other hand, is financed by a 9.5 percent tax paid by employers only and on the same earnings taxed for Tier-I. Although the Railroad Retirement program is authorized by Federal law, financed by Federal taxes and administered by a Federal agency, the present provisions came about as the direct result of industrywide negotiations between management and labor. A basic part of the agreement resulting in the Railroad Retirement Act of 1974 was that employees would pay no more for the program than other employees pay for social security and that the cost of benefits above the level provided by the social security program would be paid for by management. The committee has been advised that railroad management and labor are now conducting industrywide negotiations on such issues as wages, conditions of employment and fringe benefits including Tier-II benefits. In order not to affect in any way these negotiations, the committee bill would increase the amount of earnings subject to employer taxes only with respect to the part of the railroad retirement tax equal to the social security tax. The additional tax of 9.5 percent would continue to be applied to the maximum amount of earnings that would be taxable under the provisions of present law without regard to the increases in the tax base that would be made by the committee bill.

*Tax base for employees and the self-employed.*—In addition to increasing the amount of wages subject to the employer tax, the committee bill would also provide a lesser increase in the amount of annual earnings subject to the employee or self-employment tax. Under the amendment, there will be four \$600 increases above the levels which would exist under present law in 1979, 1981, 1983, and 1985. As under existing law, the tax base for employees and self-employed persons will also automatically increase as wage levels rise. The table below shows the projected tax bases under this amendment.

TABLE 2.—AMOUNT OF EARNINGS SUBJECT TO  
EMPLOYEE/SELF-EMPLOYED TAX

Years	Present law	Committee amendment
1978.....	\$17,700	\$17,700
1979.....	18,900	19,500
1980.....	20,400	21,000
1981.....	21,900	23,100
1982.....	23,400	24,600
1983.....	24,900	26,700
1984.....	26,400	28,200
1985.....	27,900	30,300



This amendment by itself would provide additional tax revenues for the program without increasing the tax burden on lower income workers. Only those workers earning in excess of the current base—some 15 percent of all covered workers—would pay higher social security taxes as a result of the increase in the base. Moreover, it permits the adoption of a lesser increase in tax rates (see below) than would otherwise be necessary to provide adequate financing.

Increasing the base in a decoupled social security system, as proposed by the committee, would result in a net long-range saving to the cash benefits program since the additional income resulting from raising the base is not completely offset by increased benefit rights resulting from larger amounts of workers' annual earnings being made creditable for benefits.

#### TAX RATES

#### (Section 103 of the Bill)

A significant part of the new funding (3.35 percent of taxable payroll or about \$27 billion a year at present payroll levels in the long term) would be provided through increases in the social security tax rates paid by employers, employees and the self-employed.

*Increase in self-employment tax rate.*—When earnings from self-employment were made subject to the social security tax by the 1950 amendments, the rate was set at 1.5 times the employee rate. At that time the employee rate was 1.5 percent and the self-employment rate was 2.25 percent. Over the years as tax rates were increased, the 1.5 ratio was maintained until 1973 when the cash-benefits rate for the self-employed was frozen at 7 percent. (When the hospital insurance program was established the self-employment rate for that program was made equal to the employee rate and has remained equal as the HI rate has increased.)

Because a self-employed person gets the same protection that an employee with the same earnings gets under the program, there is a financial disadvantage to the program in covering the self-employed person, as compared to covering an employee, unless the self-employed person pays contributions at a rate as high as the combined employee-employer rate. On the other hand, though, looked at from the standpoint of an individual contributing toward his own protection, the self-employed individual could easily feel that he was being overcharged if he were required to pay social security contributions over a lifetime at the combined employee-employer rate. The self-employed rate of one and one-half times the employee rate that was established when the self-employed were first covered was a compromise between these alternatives.

The committee believes that the self-employed rate should be restored to its original level in relation to the employee rate and has included such a change in the bill. Based on the idea that protection under the HI program is the same for all workers, employees and the self-employed, the HI tax rate for the self-employed has in the past been the same rate as the employee rate. The committee would retain such treatment. The tax-rate schedule for the self-employed under present law and the committee bill is shown in table 3.

TABLE 3.—TAX RATES FOR THE SELF-EMPLOYED: PRESENT LAW AND COMMITTEE BILL

[In percent]

Years	OASDI		HI		Total	
	Present law	Committee bill	Present law	Committee bill	Present law	Committee bill
1977.....	7.00	7.00	0.90	0.90	7.90	7.90
1978.....	7.00	7.10	1.10	1.00	8.10	8.10
1979-80.....	7.00	7.05	1.10	1.05	8.10	8.10
1981-84.....	7.00	8.00	1.35	1.25	8.35	9.25
1985.....	7.00	8.50	1.35	1.35	8.35	9.85
1986-89.....	7.00	8.50	1.50	1.40	8.50	9.90
1990-94.....	7.00	9.15	1.50	1.40	8.50	10.55
1995-2000.....	7.00	10.05	1.50	1.40	8.50	11.45
2001-10.....	7.00	10.95	1.50	1.40	8.50	12.35
2011 and after....	7.00	11.70	1.50	1.40	8.50	13.10

*Tax rate increases.*—In order to provide in an orderly way the revenue necessary to assure the short-term financial soundness of the cash-benefits programs, the committee bill contains (in addition to the increases in the tax base described above) a new schedule of tax rates. The new schedule was designed so that not only will the cash-benefits program be soundly financed, but the Hospital Insurance program (HI) will be in close to the same financial position that it would be under present law. This later point contrasts with some of the proposals presented to the committee which would have transferred substantial amounts of anticipated income from the HI program to the cash-benefits programs with the lost income being replaced with funds appropriated from general revenues or from unrealized savings from a suggested cost-reduction program which has not yet been enacted.

The new schedule calls for a series of tax rate increases starting in 1979 as shown in table 4.

TABLE 4.—SOCIAL SECURITY TAX RATES ON EMPLOYER AND EMPLOYEE (EACH)

[In percent]

Taxable Years	Present law			Committee amendment		
	OASDI	HI	Total	OASDI	HI	Total
1977.....	4.95	0.90	5.85	4.95	0.90	5.85
1978.....	4.95	1.10	6.05	5.05	1.00	6.05
1979-80.....	4.95	1.10	6.05	5.085	1.05	6.135
1981-84.....	4.95	1.35	6.30	5.35	1.25	6.60
1985.....	4.95	1.35	6.30	5.65	1.35	7.00
1986-89.....	4.95	1.50	6.45	5.65	1.40	7.05
1990-94.....	4.95	1.50	6.45	6.10	1.40	7.50
1995-2000.....	4.95	1.50	6.45	6.70	1.40	8.10
2001-10.....	4.95	1.50	6.45	7.30	1.40	8.70
2011 and after....	5.95	1.50	7.45	7.80	1.40	9.20

*Change in allocation to the disability insurance trust fund.*—The committee bill would increase the allocation of tax income to the disability insurance trust fund so as to assure adequate funding and to take into account changing experience with the disability insurance program, the revision in the tax rates and the rise in the tax base. The present-law and proposed allocation schedules are shown in table 5.

TABLE 5.—ALLOCATION TO DISABILITY INSURANCE TRUST FUND

[In percent]

Calendar year	Employer and employee each		Self-employed rate	
	Present law	Committee bill	Present law	Committee bill
1977.....	0.575	0.575	0.815	0.815
1978.....	.600	.775	.850	1.090
1979-80.....	.600	.750	.850	1.040
1981-84.....	.650	.825	.920	1.2375
1985.....	.650	.950	.920	1.425
1986-89.....	.700	.950	.990	1.425
1990-94.....	.700	1.050	.990	1.575
1995-2000.....	.700	1.200	.990	1.800
2001-10.....	.700	1.350	.990	2.025
2011 and after....	.850	1.500	1.000	2.250



## PAYMENT TO NONPROFIT AND GOVERNMENTAL EMPLOYERS

## (Section 106 of the Bill)

The committee bill, in order to provide adequate financing of the social security program, would significantly increase the amount of annual earnings subject to the employer social security tax. The committee is concerned over the potential immediate impact of this feature of the bill on nonprofit organizations and State and local governments. Private employers may be able to pass on in one manner or another the increased cost attributable to higher social security taxes. Moreover, to the extent that employers are unable to pass the impact of higher taxes on to consumers, they are able to claim the increased costs as a deduction against income in computing their income tax liability. In effect then, the net impact on an employer in the private profitmaking sector of an increase in social security taxes may be considerably less than the gross amount of those increased taxes.

In the case of nonprofit organizations and State and local governments, however, the situation is somewhat different. Frequently, these types of employers have virtually no capacity to pass on increased costs and, since they are not subject to Federal income taxes, they gain no increased deductions as a result of the higher taxes.

The committee generally believes that nonprofit organizations and State and local governments who have elected social security coverage should make the same payments into the system as other employers. However, since this bill provides an immediate substantial increase in employer liability, the committee believes that it would be appropriate and desirable to provide a reasonable amount of relief to these entities through a payment.

In order to provide this relief, the committee bill would authorize an appropriation from general revenues to finance such a payment.

## DECOUPLING AND WAGE-INDEXED BENEFITS

## (Sections 104, 105, and 107 of the Bill)

*Automatic cost-of-living increases.*—Existing law calls for automatic cost-of-living increases in benefits effective each June and for increases in the tax base (based on changes in wage levels) each January (assuming that the Consumer Price Index rises by at least 3 percent). Each benefit increase is put into effect by a revision of the table in the law. Thus, each increase applies not only to people entitled to benefits for the month the increase is effective but also to everyone who will become entitled to benefits in the future. For example, because of the rise in the CPI between the first quarter of 1976 and the first quarter of 1977, benefits for June 1977 were increased by 5.9 percent. As a result, each of the percentages in the benefit formula was increased by 5.9 percent. A further expansion of the table will take place in January when the maximum amount of earnings taxable rises to \$17,700. Much of the estimated long-term deficit results from the fact that these modifications in the benefit formula apply to benefits which will be awarded in the future as well as to the benefits paid to people on the benefit rolls on the effective date.

*Relationship between benefit formula and the deficit.*—The automatic “cost-of-living” benefit increase mechanism incorporated into the social security program by the 1972 amendments, which had been recommended as a way to make benefits inflation proof, operates exactly as intended for persons on the benefit rolls. Once the initial benefit has been established, it is periodically increased by a percentage which restores its original purchasing power according to the official governmental index of purchasing power—the Consumer Price Index. The committee bill proposes no change in this concept.

The “cost-of-living” adjustment mechanism, however, also increases the percentages in the formula for determining initial benefits in the future. Future benefits however, are based on earnings which rise, in part, as the result of increases in prices. Thus, wages which were increased to take account of rising prices are multiplied by a benefit formula which was also increased to take account of the same increase in prices.

For an example of how benefits are increased under present procedures, assume a program with a benefit equal to 50 percent of wages. In such a program wages of \$100 would produce a benefit of \$50. If wages and prices both rise by 10 percent, the individual who is on the benefit rolls will have his benefit increased to \$55 and the person who is still working will have his \$100 wage increased to \$110. If the benefit formula is left unchanged, both individuals would qualify for a \$55 benefit. But under present procedures the benefit formula is also increased to 55 percent and the person who will retire in the future with wages increased from \$100 to \$110 will get a benefit of \$60.50.

Under any reasonable projection of future economic conditions, benefit levels determined by the present-law mechanism will be much higher than what is necessary to simply adjust for inflation and will represent an ever-increasing percentage of the new retiree’s wages in the year before he retires. For significant numbers of people, the benefits payable just after retirement would approach—and in many cases exceed—their wage levels immediately before retirement. It is this part of the current cost-of-living provisions that the committee bill would change as discussed below.

The starting point for most proposals for dealing with the current long-term deficit of the social security system is a concept called “decoupling.” Decoupling means that the automatic benefit increase mechanism in present law would continue to apply to keep benefits inflation proof after a person retires and begins to draw his benefits but the formula for determining benefits at the time of retirement would no longer be automatically increased. If the system were simply decoupled with no other changes, an individual retiring in 1987 would get the same initial benefit as a man or woman with the same average earnings retiring in 1977. The level of initial benefits would tend to grow in the future but only as a result of rising wage levels which, using the same benefit formula, would tend to generate higher



benefits. However, the rise in actual benefits awarded in the future would not be enough to keep pace with the anticipated rise in wage levels or to offset the expected rise in the CPI.

Decoupling by itself would make a substantial reduction in the long-term cost of the program but would also cause a significant reduction in the real value of future benefits. In order to forestall a reduction of this nature, the committee bill would provide a new automatic mechanism for adjusting the formula for computing initial benefits which is designed to keep replacement rates at about existing levels. This proposal, in slightly different form, was recommended by the 1974 Advisory Council on Social Security. The committee has been advised that the method adopted in its bill would assure future benefits at approximately the level of the benefits provided last year.

Under the committee bill, indexed earnings would be averaged and a three-step, weighted benefit formula would be applied to the individual's average indexed monthly earnings (AIME) to produce the benefit amount. For those becoming entitled to benefits in the future, the benefit factors (percentage amounts) would not be indexed, but the bend points (dollar amounts) in the formula would be adjusted automatically as average wages increase.

Under the benefit procedures included in the committee bill, the relationship between the benefits paid at the time of retirement and earnings in the year prior to retirement is expected to be a constant 43 percent for a person retiring at age 65 with earnings in all years equal to the national average, and the real value of benefits expressed in terms of 1977 prices will rise three times by the year 2050.

A basic change such as that which would be provided by the committee bill also requires many substantial changes in provisions of present law, transitional provisions for the period during which the new system is implemented, and a number of conforming amendments to minimize the possible disruptions that so basic a change in the benefit structure might otherwise produce.

*Wage indexed earnings.*—The committee's bill would provide that an individual's benefit be based on the earnings level that prevails just prior to age 62, disability, or death. To do this, an individual's earnings in each year after 1950 would be updated (indexed) to reflect the increase in average wages through the second year before an individual reaches age 62, becomes disabled, or dies.<sup>1</sup> (Under present law, for the purpose of computing a benefit, earnings are counted in actual dollar value, and these earnings do not reflect their value relative to average earnings at the time they were earned.)

<sup>1</sup> While it would seem reasonable to update earnings through the first year before the year one reaches retirement age, the Social Security Administration informed the committee that data on actual wage growth will not be available in time to allow for such current indexing. For 1978 and subsequent years, the law provides that earnings will be reported on an annual rather than a quarterly basis. Thus, for example, data on average wage levels in 1980 will not become available until late in 1981—too late for indexing earnings of workers who reach age 62, become disabled, or die in 1981; 1979 would be the indexing year for such workers.

TABLE 6.—BENEFITS, REPLACEMENT RATES AND EXPENDITURES UNDER PRESENT PROGRAM 1955-2050

[In percent]

Year	Worker with average earnings <sup>1</sup>		Replacement rate for worker with—		Aggregate OASDI expenditures	
	Annual benefit in 1977 prices	Replacement rate	Low earnings <sup>2</sup>	High earnings <sup>3</sup>	As percent of payroll	As percent of GNP <sup>4</sup>
1955..	\$2,141	31	45	31	3.34	1.3
1960..	2,493	33	45	30	5.89	2.3
1965..	2,665	32	43	33	7.93	2.8
1970..	2,987	34	46	29	8.12	3.4
1975..	3,619	43	56	30	10.65	4.6
1979..	4,444	46	58	35	10.85	4.5
1985..	5,354	48	60	34	11.56	4.8
1990..	5,871	49	63	36	12.39	5.1
1995..	6,476	49	66	37	13.13	5.4
2000..	7,406	52	75	39	13.92	5.7
2010..	9,489	56	84	42	16.57	6.8
2020..	11,916	60	91	44	21.64	8.9
2030..	14,765	63	96	46	26.02	10.7
2040..	18,122	65	101	47	26.67	11.0
2050..	22,088	67	106	48	26.93	11.1

	Percent
Average medium-range cost (1977-2001).....	12.24
Average medium-range revenue.....	9.90
Average medium-range balance.....	-2.34
Average long-range cost (1977-2051).....	19.19
Average long-range revenue.....	10.99
Average long-range balance.....	-8.20

<sup>1</sup> Assumed to be 4 times the average 1st quarter covered earnings.

<sup>2</sup> Assumed at \$4,600 in 1976 and following the trends of the average.

<sup>3</sup> Assumed at the maximum taxable under the program.

<sup>4</sup> For 1979 and later, based on full employment and assuming taxable payroll equals 41.1 percent of GNP.

Note: The estimates in this table are based on the economic and demographic assumptions used in the intermediate cost estimates (alternative II) in the 1977 OASDI Trustees Report. The replacement rates pertain to workers with steady employment at increasing earnings and compare the annual retirement benefit at age 65 with the earnings in the year immediately prior to retirement.

TABLE 7.—BENEFITS, REPLACEMENT RATES, AND EXPENDITURES UNDER COMMITTEE BILL, 1979-2050

[In percent]

Year	Worker with average earnings <sup>1</sup>		Replacement rate for worker with—		Aggregate OASDI expenditures	
	Annual benefit in 1977 prices	Replacement rate	Low earnings <sup>2</sup>	High earnings <sup>3</sup>	As percent of payroll	As percent of GNP <sup>4</sup>
1979..	<sup>5</sup> \$4,444	<sup>5</sup> 46	<sup>5</sup> 58	<sup>5</sup> 35	10.29	4.2
1985..	4,713	43	54	30	10.56	4.3
1990..	5,145	43	55	29	10.84	4.4
1995..	5,581	43	54	30	11.29	4.5
2000..	6,068	43	54	31	11.68	4.6
2010..	7,172	43	54	32	12.88	5.0
2020..	8,472	43	54	32	15.72	6.1
2030..	10,011	43	54	32	17.86	7.0
2040..	11,830	43	54	32	17.36	6.8
2050..	13,978	43	54	32	16.81	6.6

	Percent
Average medium-range cost (1977-2001).....	10.93
Average medium-range revenue.....	11.83
Average medium-range balance.....	+ .90
Average long-range cost (1977-2051).....	14.16
Average long-range revenue.....	14.22
Average long-range balance.....	+ .06

<sup>1</sup> Assumed to be 4 times the average 1st quarter covered earnings.<sup>2</sup> Assumed at \$4,600 in 1976 and following the trends of the average.<sup>3</sup> Assumed at the maximum taxable under the program.<sup>4</sup> Based on full employment and assuming taxable payroll equals 41.1 percent of GNP.<sup>5</sup> Based on the present law benefit formula for all workers attaining age 62 before Jan. 1, 1979.

Note: The estimates in this table are based on the economic and demographic assumptions used in the intermediate cost estimates (alternative II) in the 1977 OASDI Trustees Report. The replacement rates pertain to workers with steady employment at increasing earnings and compare the annual retirement benefit at age 65 with the earnings in the year immediately prior to retirement.



Earnings would be indexed by multiplying the actual earnings by the ratio of average wages in the second year before an individual reaches age 62, becomes disabled, or dies to the average wages in the year being updated. For example, if an individual earned \$3,000 in 1956, and retired at age 62 in 1979, the \$3,000 would be multiplied by the ratio of average annual wages in 1977 (estimated to be \$10,002) to average wages in 1956 (\$3,514), as follows:

$$\$3,000 \times \frac{\$10,002}{\$3,514} = \$8,539$$

Thus, while the actual earnings for 1956 were \$3,000, the relative or indexed earnings would be \$8,539. Earnings each year would be adjusted in this manner. The result would be that an individual's benefits would be based on the earnings level that prevails at age 60 and benefits would be based on the individual's relative earnings (that is relative to average wages) averaged over the time most people could reasonably be expected to have worked in covered employment.

The committee understands that as part of this change, the Secretary of Health, Education, and Welfare recommends that the method of computing average wages nationally be changed from the present procedures which rely on earnings reported for social security purposes to a system which would be based on wages reported for Federal income tax purposes. The change is needed because the social security law provides for combined annual reporting of wages for social security and income tax purposes beginning in 1978. The committee bill would authorize such a change. Average wages would be equal to the sum of wages subject to income taxes or social security taxes as reported to the Internal Revenue Service, and divided by the number of individuals reported on the withholding statements. For 1977 and 1978, form 1040 data would be used and after 1978, forms W-2 data would be used. Adjustments in earlier data would be made to allow for overall comparability.

The change in the way benefits are computed proposed by the committee bill would also reduce the increasing advantage that young disabled people and their families and the survivors of deceased individuals have over retired workers under present law. Under the present method of computing benefit amounts, benefits for young disability and survivor cases are based on recent and relatively high earnings while benefits for new retirees are based on an average that is depressed because of past earnings levels that are generally much lower than current earnings levels. In certain cases, the difference in benefit amounts can be substantial.

*Base year for indexing.*—The committee's bill would index earnings in retirement cases through the second year before age 62 (the age of first eligibility) rather than to retirement (when an individual is first entitled to benefits). Because the indexing point is based solely on the date of birth rather than on the year retirement benefits are elected, people would be assured that their age-62 benefit would not decline if average wages declined and that it would rise should the Consumer Price Index rise. If wages were indexed to the date of retirement instead of to age 62, the worker's benefit amount could decline after the date he could first have been eligible if average wages decline.



*Computation period.*—The committee bill, like present law, would provide that benefits generally would be based on earnings averaged over the number of years after 1950 (or age 21, if later) up to the year an individual reaches age 62, becomes disabled, or dies, whichever occurs first (excluding 5 years of lowest earnings). The number of years in the computation period would expand over time—for example, for an individual reaching age 62 in 1979, the computation period would be 23 years, and eventually, for individuals reaching age 62 in 1991 or later, the computation period would be 35 years.

With the use of actual earnings, as under present law, the expanding computation period would depress replacement rates since early wages, which are generally much lower than current wage levels, must be used in computing the benefits. However, wage indexing is designed so that if an individual's earnings increase at the same rate as average wages in the economy, average indexed monthly earnings (AIME) rise at the same rate as average wages in the economy.

*Benefit formula.*—Under present law, benefit amounts for an individual are derived from a table in the social security law and are related to the average monthly earnings in covered employment. The benefit formula that roughly approximates the benefit amounts shown in the table in present law has nine steps and, whenever the tax base is increased, a new step is added to take account of the higher average earnings possible as a result of the new, higher base. Each time there is an automatic cost-of-living benefit increase, the percentage factors in the formula are increased by the percentage increase in the cost of living.

Under the committee's bill, the benefit formula shown below would be applied to an individual's average indexed monthly earnings (AIME). The formula is designed to produce benefits which are approximately equal to the benefits that were payable under present law to workers retiring in 1976:

92 percent of the first \$180 of AIME; plus

33 percent of AIME over \$180 through AIME of \$1,075; plus

16 percent of AIME above \$1,075.

This formula would apply to those who reach age 62, become disabled, or die in 1979. The dollar amounts or bend points (the AIME levels at which the weighting in the benefit formula changes) would be adjusted automatically as average wages increase for those who become eligible for benefits in the future, and the adjusted bend points would be rounded to the nearest multiple of \$1. After the individual benefit has been established in this way it would be increased as provided by the automatic cost-of-living provisions.

*Maximum family benefit.*—Under present law, the maximum family benefit ranges from 150 percent to 188 percent of the primary insurance amount (PIA).<sup>2</sup>

The committee bill retains the same relationship between maximum family benefits and PIA's as in present law and to accomplish this would determine the family maximum (in 1979) by applying the following formula to the worker's PIA:

150 percent of the first \$236 of PIA, plus

272 percent of the next \$106 of PIA, plus

134 percent of the next \$107 of PIA, plus

175 percent of the remainder.

<sup>2</sup> The amount on which all benefits are based.

In the future, the dollar amounts in the formula would be increased based on increases in average wages. This would assure that the same relationship between maximum family benefits and PIA's would be maintained. Once the family maximum has been established in an individual case, the maximum payable to the family would be increased by the same percentage that benefits are increased under the automatic cost-of-living provisions.

*Transition.*—Because the committee bill would provide benefits that would be about equal to those payable under present law in 1976, a transitional provision has been included to protect the benefit rights of people who are now approaching retirement and whose retirement plans have taken social security benefits into account.

Under the committee bill, the transitional provision would guarantee that an individual who first becomes eligible for retirement benefits within 5 years after the effective date would get an initial benefit that would be the higher of: (a) The benefit derived under the new benefit formula; or (b) the benefit based on the present law benefit table as it is in the law on the effective date of the revised system—January 1979.

For purposes of the guarantee, the January 1979 benefit table would not be subject to future automatic benefit increases, but all individual benefits would be subject to all benefit increases that become effective after age 62. Earnings after age 61 would not be used under the guaranteed benefit computation. With the passage of time, benefits under the wage-indexing system would rise beyond the levels generally payable under the guarantee, because future wage increases would be reflected in a higher AIME and in the adjustments in the benefit formula each year. As a result, the proportion of new retirees that would receive higher benefits under the guarantee would decrease with each passing year.

The committee bill would not provide a similar transition for death and disability cases because these benefits under present law can be significantly higher than in retirement cases for similar earnings histories.

*Treatment of earnings after age 62 or disability.*—Under the committee bill, earnings subsequent to the year of first eligibility (age 62) or onset of disability would be counted at actual dollar value (that is, they would not be indexed). They would be substituted for earlier years of indexed earnings in the initial computation or recomputation if they would increase a worker's AIME and his PIA. These provisions are similar to those under present law. However, because past earnings would be higher after wage indexing than under present law, earnings after retirement can be expected to have substantially less effect in increasing benefit amounts than they have under present law.

Special rules would apply in the case of earnings after age 61 during the transitional period. People who are eligible for benefits under the transitional guarantee (because they reached age 62 in the period from 1979 through 1983) could have earnings after age 61 included only under the wage-indexing computation. Earnings after age 61, however, could not be included in the computation of guaranteed benefits under the transitional provision.

Those age 62 or disabled before 1979 would continue to have their benefits computed and recomputed under the provisions of present law even if they work in covered employment after 1978.

*Treatment of earnings before 1951.*—Under the committee bill, earnings before 1951 would not be indexed and could not be used in computing benefits under the new wage-indexing system. Instead, the present-law computation method that applies in the case of pre-1951 earnings would be used; this present-law computation provides for allocating total pre-1951 earnings according to a formula designed to avoid time-consuming manual procedures that would otherwise be necessary, due to the fact that the Social Security Administration does not have a year-by-year breakdown of pre-1951 earnings on machine records.

Under the bill a nonprofit organization or a State or local government which is covered under social security would be eligible for a payment subject to the availability of appropriations, this payment would be equivalent to 50 percent of the employer tax liability to the extent that that liability exceeds the tax liability of the persons it employs. This provision gives nonprofit organizations and State and local governments an amount of relief related to the higher employer wage base approximately equivalent to the value of an income tax deduction for a profitmaking private employer. The provision would be effective in 1979 since this is the first year in which the employer tax base would be higher than the employee tax base.

The provision is designed to provide relief in a manner closely related to that element of the financing package which will create an immediate and substantial increase in social security costs for State and local governments and non-profit organizations. It is a transitional provision which will phase out as the employee base rises in the future.

*Cost of the provision.*—The provision is estimated to cost \$83 million in fiscal year 1979.

## B. OTHER PROVISIONS

### THE RETIREMENT TEST

#### (Section 121 of the Bill)

Under the present law, the benefits paid are reduced whenever an individual under age 72 has significant earnings. Although a test of retirement has been in the law since the original law was enacted in 1935, the provision has generated a great deal of discussion and argument. While most people seem to believe that some test of retirement is appropriate to the program, there is little agreement as to what the appropriate test should be. Others believe that the concept of the social security program as an income replacement program is not appropriate and that the basic nature of the program should be changed so that it would provide benefits without regard to continued earnings activity.

The committee considered these various concepts and determined that the better course would be to continue the program, as currently conceived, in the income replacement tradition. The committee notes that in the first year an annuity program would cost some \$6 to \$7 billion if payments were to be made to all beneficiaries, regardless of



age. While this cost could be substantially reduced by making benefits available as an annuity only at age 65, the committee believes it is preferable to continue the practice of making the same retirement test applicable to all persons under age 72.

At the same time, the committee is aware that the present level of benefits can be inadequate in many individual circumstances. The committee, therefore, recommends that the law be changed to provide a substantial increase in the amount of money an individual can earn and still receive all of his benefits while at the same time retaining the basic concept of the cash-benefits program as an income replacement program. In keeping with this decision, the committee bill would increase the amount an individual can earn without any reduction in benefits to \$4,500 in 1978 and to \$6,000 in 1979. As under present law, earnings above that amount would result in a \$1 reduction in benefits for each \$2 earned above \$4,500 in 1978 and above \$6,000 in 1979, with automatic increases in these amounts in future years as average earnings rise. There would be no reduction in benefits for any month in 1978 in which an individual earned less than \$375 and did not render substantial services in self-employment or for any month in 1979 in which an individual earned less than \$500 and did not render substantial services in self-employment. Under the committee amendment, an individual who has a 1978 benefit of \$300 a month would not lose all of his benefits until he had earned \$11,700 and in 1979 until he had earned \$13,200.

The committee is aware that in the past there has been a tendency to use the retirement test exempt amount as a guide in setting the earnings level used as a presumption that a disabled individual can engage in substantial gainful activity. While the committee believes that this was appropriate in the past when the retirement test exempt amount was relatively small, the larger exempt amount resulting from the committee decision is not intended as a measure of an individual's ability or inability to engage in substantial gainful activities. The committee suggests that the Secretary of Health, Education, and Welfare devise a more appropriate measure of earnings to use in determining an individual's ability to engage in substantial gainful activities.

To avoid any budgetary impact in fiscal year 1978, the committee bill provides that, while the provision will be effective for all of 1978, no monthly payments, other than the payments which would be made under present law, would be permitted until October 1, 1978.

The provision will substantially increase benefit payments in fiscal years after 1978. The committee, in adopting this provision, specifically increased the social security tax rates by the amount necessary to generate offsetting revenues. Thus, from the standpoint of long-range financial soundness of the program, the provision is fully funded.

*Costs and number of people affected.*—About 1.8 million people would be paid benefits or would be paid larger benefits in 1979. About \$2 billion in additional benefits would be paid in 1979.

*Effective date.*—The provision would become effective as of October 1, 1978, with respect to benefits payable for months after December 1977.



## INCREASED BENEFITS FOR CERTAIN SPOUSES

## (Section 122 of the Bill)

Under present law, a worker who continues working and delays retirement beyond age 65 gets a delayed retirement credit of one-twelfth of 1 percent of his benefit for each month (1 percent a year) for which he does not receive a benefit from age 65 up to the earlier of the month he retires or reaches age 72. The credit is applied to the worker's benefit only and does not affect the benefits of dependents and survivors.

Under the committee bill, the delayed retirement credit earned by an individual would be added to the surviving spouse's benefit. Specifically, the percentage increase in the individual's retirement benefit due to the delayed retirement credit (or the increase that would have been provided had the individual retired at the time of death), would be added to the surviving spouse's benefit.

To the extent that the delayed retirement credit is provided in consideration of the worker's post-age 65 earnings (and taxes) the committee believes that the surviving spouse's benefit—which is based on total earnings (including post-65 earnings)—should also include any delayed retirement credit earned by the worker.

*Costs and number of people affected.*—About 40,000 people would become eligible for benefits or would become eligible for larger benefits on the effective date. About \$4 million in additional benefits would be paid in the first full year.

*Effective date.*—The provision would become effective with respect to benefits payable for months after December 1977.

## OFFSET OF BENEFITS OF SPOUSES RECEIVING PUBLIC PENSIONS

## (Section 123 of the Bill)

Under present law, a woman can become entitled to spouse's or surviving spouse's benefits without proving dependency on her husband. As a result of a March 1977 Supreme Court decision, a man can also become entitled to spouse's or surviving spouse's benefits without proving his dependency on his wife. (In *Califano v. Goldfarb*, the court ruled that men should be treated equally with women in determining entitlement for surviving spouse's benefits. Subsequently, other court decisions extended this ruling to husband's benefits. Previously, a man had been required to prove his dependency on his wife to become entitled to spouse's or surviving spouse's benefits, although women were presumed dependent.) Under the social security program, an individual who is entitled to two benefits does not receive the full amount of both benefits. For example, if one is entitled to both a worker's benefit and a spouse's benefit, the full worker's benefit is paid first and then the amount (if any) by which the spouse's benefits exceed the worker's benefit. This "dual-entitlement" provision prevents payment of dependents benefits to some persons not truly dependent. However, persons who receive civil service pensions based on their work in non-covered employment and are entitled to social security spouses' bene-

fits, receive their dependent spouses' benefits in full, regardless of their dependency on the worker. This results in "windfall" benefits to some retired government employees.

The committee recommends that social security benefits payable to spouses and surviving spouses be reduced by the amount of any public (Federal, State, or local) retirement benefit payable to the spouse. The offset would apply only to pension payments based on the spouse's own work in public employment which is not covered under social security. In general, this should assure that dependents' social security benefits will not be paid to persons not dependent on the worker.

Consideration was given to requiring claimants to prove their dependency on the worker before entitling them to spouses' benefits. However, a dependency test would be subject to manipulation. For example, a government employee with earnings higher than those of his wife could qualify for a social security spouse's benefit by allowing a few months to intervene between the date of his retirement and the effective date of his pension. Also, a dependency test could deny spouses' benefits in situations where it would seem undesirable to deny such benefits. For example, a woman might, in fact, be dependent upon her husband for most of her life and might have earned little or nothing in the way of retirement income protection in her own right and yet be denied benefits if a dependency test were implemented. This could occur if her husband became ill shortly before reaching retirement age, thus forcing a temporary reversal of their usual dependency situation. Additionally, a dependency test would require substantial numbers of persons to provide information with regard to their total income in order to establish entitlement, a significant departure from present practice where income is not generally a factor in entitlement. Making such determinations would also create administrative difficulties. For these reasons, the committee believes an offset is preferable to a dependency test. The provision would be applicable only to future beneficiaries.

*Costs and number of people affected.*—About 85,000 people would be affected by the provision during the first year. The provision is estimated to save \$190 million in 1979.

*Effective date.*—The provision would become effective with respect to benefits payable for months starting with the month of enactment on the basis of applications filed in or after the month of enactment.

#### ELIMINATION OF CERTAIN DUAL TAXATION PROVISIONS

##### (Section 124 of the Bill)

The committee bill contains provision for limiting employer social security and unemployment insurance tax liability in certain instances of concurrent employment of workers by related corporations. Present law requires each employer to pay social security and unemployment insurance taxes on the wages an employee receives because of his employment by that employer, up to the taxable earnings base (\$16,500 for social security purposes and \$4,200 for unemployment insurance purposes in 1977). If an employee has covered wages from more than one employer, each employer is liable for employer social security (and unemployment) tax on wages up to the maximum amount of earnings

taxable for the year. In the case of concurrent employment by two or more related corporations, each of the employing corporations is liable for social security (and unemployment) taxes on that part of the worker's wages attributable to services performed for each employer. Thus, in such cases of concurrent employment involving high-paid workers, two or more employers may be liable for employer taxes on an employee's wages up to the taxable maximum, even though only one of the employers actually paid the employee's total wages.

The effect of the committee decision is that related corporations would pay no more employer taxes than if the corporations were only one employer even though the worker is actually employed by the several corporations and his compensation reflects services he performs for the several corporations. Thus, a related group with a common paymaster would be treated as a single corporation and would not be required to pay the taxes that would otherwise be due because the worker is an employee of the several corporations. The provision is intended to have no effect, by inference or otherwise, on the deductibility for Federal income tax purposes of employment taxes or wages payable by a corporation. The committee expects the Secretary of the Treasury to specify the degree of relationship required to enable corporations to establish a common paymaster for purposes of this provision.

The committee notes that since other provisions of the bill would raise the employer taxable earnings base for social security purposes to \$50,000 beginning in 1979 and to \$75,000 in 1985, the combined effect of that provision and the provision limiting employer tax liability of certain related corporations—insofar as employer social security tax liability is concerned—would be limited to a relatively small number of workers with high annual earnings.

*Cost.*—The revenue loss associated with this provision is estimated to be less than \$25 million in social security taxes and in unemployment taxes.

## RETROACTIVE PAYMENT OF REDUCED BENEFITS

### (Section 125 of the Bill)

The present law provides that benefits can be paid for as many as 12 months before the date an application for benefits is filed. This provision was intended to assure that an individual who, for one reason or another, could or did not make a timely application for benefits would not lose any of the benefits to which he would have been entitled. At the same time it was recognized that the purpose of the program—to provide income to help meet current living costs—would not be achieved if an individual were permitted to forego monthly benefits in order to accumulate a large lump-sum payment. The 12-month limit on the payment of retroactive benefits is a compromise between the two conflicting objectives of providing income to help meet current expenses and preventing the loss of benefits merely because of difficulties in filing a benefit application at a specific time.

The committee was informed that the present retroactive payment provisions permit the payment of a windfall benefit in certain cases where an individual learns at the time he files for benefits that he could



be paid retroactive benefits provided that he accepts a reduced payment for the rest of his life. The committee views such a situation as a distortion of the primary purpose of the program which is to provide a continuing source of income after earnings under social security are lost (e.g., through retirement in old age). It is not the purpose of the program to provide large lump-sum payments, particularly where providing such one-time payments results in a lessening of the adequacy of the on-going monthly benefit level.

Under the committee bill, monthly benefits generally would not be paid retroactively for months before the month in which the application was filed if it would cause reduced benefits to be paid. An exception, however, would be made if unreduced dependent's benefits are payable in addition to the reduced benefit.

Under present law, the applicant-beneficiary who is eligible for reduced benefits may be faced with options that are unclear and misleading to him, and which could make it difficult for him to decide whether or not to elect reduced benefits. For example, if a worker's monthly benefit amount were \$160 as of the month he attained age 65 and filed an application, he could get a lump-sum payment of \$1,792.80 if he elected to have his monthly benefits reduced by \$10.60 to \$149.40.

The committee has been concerned about the high proportion of applicants in such situations who choose to receive a relatively high one-time retroactive benefit payment, even though it means a permanent reduction in the monthly benefits they would get in the future. It is this continuing income on which they have to rely for the remainder of their lives; it may be too small to adequately provide for current needs. Under the proposed change, many older beneficiaries would have higher incomes to meet their ongoing needs.

*Costs and number of people affected.*—About 1 million people would be affected by the provision in the first year. This provision would reduce the long-term cost of the program by 0.01 percent of taxable payroll and would cause a reduction in payments for the first few years it is in effect ranging from \$0.4 billion in calendar 1978 to \$0.6 billion in 1982.

*Effective date.*—The provision would become effective with respect to benefits payable for months after the month of enactment on the basis of applications filed after the date of enactment.

#### DELIVERY OF SOCIAL SECURITY AND SSI CHECKS

##### (Section 126 of the Bill)

Under present law, social security benefit payments for a particular month are payable after the end of that month, and payment is normally made on the third day of the month; SSI benefit checks for a particular month are delivered on the first day of that month.

The committee has been concerned that social security and SSI beneficiaries have to wait several days before they could get their benefit checks cashed in those instances where the usual delivery date fell on a Saturday, Sunday, or legal holiday.

The committee bill would require that, when the delivery date for either payment falls on a Saturday, Sunday, or legal holiday, the checks would be delivered on an earlier date.



## BENEFIT INCREASES AS APPLIED TO REDUCED BENEFITS

## (Section 127 of the Bill)

Because of the way in which benefit increases are computed, people who initially received actuarially reduced benefits sometimes receive an increase which is a greater percent of their total benefit than the increase provided generally. For example, when a cost-of-living increase is provided, these people receive an increase which is larger than the increase in the cost of living. This occurs because the percentage increase is applied not to the actual benefit amount but to the basic benefit rate. (the primary insurance amount) which equals the amount that would be paid to a retired worker who began drawing benefits at age 65. If an individual begins getting benefits prior to age 65 and therefore accepts an actuarially reduced benefit rate, subsequent benefit increases are larger than is necessary to keep that benefit up to date with increases in the CPI.

The fact that subsequent benefit increases are not actuarially reduced to the same extent as the original benefit complicates the processing of benefit increases, makes the program less easily understandable, and violates the actuarial neutrality of the decision as to whether or not to take benefits prior to age 65. The last factor would become particularly significant under the provision in the bill which raises the retirement test exempt amount to \$6,000. Under that change, some social security benefits will be payable to persons earning in excess of \$10,000 per year. A person under age 65 will in many cases be able to begin getting benefits while still employed. The incentive for such an individual to claim reduced benefits will be substantially greater if subsequent benefit increases are exempt from the reduction factor applied to the original benefit.

In view of all these factors, the committee bill modifies the provisions relating to benefit increases so that the across-the-board percentage increase will apply to the benefit actually being paid rather than to the "primary insurance amount." Under this provision, all beneficiaries on the rolls at the time of an increase will get the same percentage increase in their benefits.

*Costs and number of people affected.*—About 14 million people who receive actuarially reduced benefits for June 1978, when the next cost-of-living increase is effective would be affected by the provision. In calendar year 1979 (the first year in which it has a full-year effect), the provision will reduce benefit payments by \$230 million.

*Effective date.*—The provision would become effective with respect to benefit increases which go into effect after December 1977.

## TOTALIZATION AGREEMENTS

## (Section 128 of the Bill)

There is at present no authority in the Social Security Act authorizing the President to enter into agreements (totalization agreements) with other countries to provide for coordination between social security systems. Lack of coordination with the systems of other countries has two disadvantages.

First, the work of U.S. citizens employed by U.S. employers in foreign countries is subject to the social security taxes of the United States and is also subject to the social security taxes of the foreign country. The tax payments to foreign systems may be higher than in the United States and American workers generally get little or no return for the taxes they and their employers pay to the foreign systems because social security eligibility requirements are usually stricter under foreign systems.

Second, U.S. citizens who divide their working careers between work covered under the U.S. social security system and work covered under a foreign social security system suffer a loss of continuity in their social security coverage. Some who work abroad for a number of years and have periods of coverage under two or more social security systems may not qualify for benefits under one or more countries when they retire, become disabled, or die. (For example, American workers who work abroad for a number of years may lose their U.S. social security disability protection because to be insured for disability benefits they must generally have substantial recent work covered by the U.S. system.) Others may qualify for social security benefits but the social security benefits they receive may be small because not all their employment can be taken into account.

The committee bill would help solve these problems by authorizing the President to enter into bilateral agreements with foreign countries to provide for limited coordination between the U.S. social security system and those of other countries. Each agreement would be submitted to the Congress along with a report of the number of people who might be affected by the agreement and the effect the agreement would have on the long-term and short-term income and outgo of the social security system. Each House would then have 90 days (counting only days in which it was in session) to consider the agreement. Should either House pass a resolution within that period disapproving the agreement, the agreement would not go into effect.

Each agreement should provide for the elimination of dual social security taxation and coverage for the same work. An agreement could also provide that each country would take into account a worker's total work and earnings in both countries for purposes of determining eligibility for and the amount of benefits. Each country would pay only a part of the totalized benefit; the amount of the benefits paid would be the proportion of the totalized benefit which is attributable to the covered work performed in the paying country. The United States would not pay a totalized benefit to a worker who had less than six quarters of coverage under the U.S. system. Totalization would improve protection for people who work in both countries. In a large proportion of these cases, if the worker is insured based on his U.S. work alone, his regular social security benefits would be higher than his totalized benefit. In such cases, the worker would be able to receive the higher benefit.

Totalization agreements (which are common among European countries) are considered to have an advantage over other approaches to coordination in that the agreements are designed to allow each cooperating country to carry out its responsibilities virtually independently. The countries exchange information on covered earnings and earnings



credits and provide other administrative assistance, but otherwise each country makes its determinations and computations independently and pays benefits directly, without any need for an interchange of funds or balancing of amounts paid as benefits.

A number of countries, including Italy, West Germany, Switzerland, Canada, France, and Japan, have approached the United States about the possibility of concluding social security totalization agreements, and the Social Security Administration has had technical discussions with representatives of each of these countries except Japan. A totalization agreement between the United States and Italy was signed in 1973 and a totalization agreement between the United States and West Germany was signed in 1976, to signify that the countries accepted the text of the agreement for purposes of seeking enabling legislation from their national legislatures. Both Italy and Germany have enacted enabling legislation, but the agreements cannot become effective until they are authorized for the United States as provided in the committee amendment.

#### EMPLOYEES OF CERTAIN NONPROFIT ORGANIZATIONS

##### (Section 129 of the Bill)

The committee bill contains an amendment designed to correct the effect of the constructive waiver provisions of Public Law 94-563 which caused substantial and unintended liabilities for retroactive social security taxes.

Services performed in the employ of a religious, charitable, or other organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code are excluded from social security coverage, unless the employing organization files a certificate provided for under section 3121(k) of the Code waiving its exemption from social security taxes together with a list of current employees who concur in the filing of such certificate. Thereafter, social security coverage and tax liability attach to those listed employees and all employees subsequently hired by the organization.

It was discovered during the 94th Congress that a substantial number of nonprofit organizations had been paying social security taxes although not formally in compliance with the waiver procedure. Some organizations had in fact demanded and obtained large-scale refunds and caused retroactive elimination of their employees' social security coverage. To foreclose abuse of the program, Congress enacted Public Law 94-563 which provides, in effect, for constructive filing of waiver certificates in certain instances where taxes were paid.

Public Law 94-563 dealt with the organizations differently depending on whether they had withdrawn from improperly established coverage and had obtained a refund (or tax credit) prior to September 9, 1976. Organizations that had obtained a refund were given a 6-month period (which ended April 18, 1977) to file an actual waiver certificate together with a list of employees who wished to have their coverage reinstated. Refunded taxes with respect to those employees only would have to be repaid and they could be repaid through an installment arrangement. Failure to file a waiver certificate within the 6-month period resulted in a deemed filing of such a certificate

and liability on the part of the employer for the payment of both employer and employee taxes due for the retroactive period.

Organizations which had not obtained a refund prior to September 9, 1976, were simply deemed by Public Law 94-563 to have filed a valid waiver certificate covering all employees with respect to whom taxes had been paid. No special provisions for the exclusion of their employees or repayment of their retroactive tax liability were included in Public Law 94-563, since it was assumed that such organizations would generally be current in their social security tax payments and that they had simply been unaware that they were exempt from the social security tax requirements.

This legislation has created problems for organizations that paid social security taxes for some period prior to learning of their failure to file a valid waiver certificate. Instead of requesting a refund of incorrectly paid taxes, some of these organizations merely terminated payments. Last year's legislation deems these organizations to have filed a constructive waiver with respect to employees for whom they previously paid social security taxes and requires them to pay social security taxes for the retroactive period from the time they stopped paying them. Moreover, the law does not allow them the option of paying this newly created past liability in installments. There exists as well a substantial liability for social security taxes for all employees hired after the "deemed-filing" date.

Similarly affected by Public Law 94-563 are certain nonprofit organizations that terminated social security payments and sought a refund but did not receive that refund until after September 8, 1976. Those organizations became, by operation of last year's bill, liable for repayment of the refund and for social security taxes on the wages of their employees for the period dating from their termination.

In addition, a large number of affected organizations qualifying for treatment under section 3121(k) (5) did not meet the filing date in the original law, in large part due to misunderstanding and confusion with respect to their obligations and liabilities under the provisions of Public Law 94-563.

The committee bill would provide that nonprofit organizations that ceased paying social security taxes on earnings of their employees before October 1, 1976, without receiving a refund of social security taxes they had paid in the past, would not be liable for any social security taxes from the time that such taxes ceased to be paid through June 30, 1977, and any taxes that had been paid, after the enactment of Public Law 94-563 which would not be required under the committee amendment would be refunded.

Those organizations that received refunds or credits of taxes after September 8, 1976, would, under the provision of the committee bill, be treated the same as those organizations that had ceased paying social security taxes. Thus, such organizations would not be liable for taxes on their employees' services prior to June 30, 1977, for which they received refunds. However, no social security credits would be given to employees for services rendered during the period for which social security taxes would be forgiven by the bill, but a worker for whom taxes were paid in the past may file a claim by April 15, 1980, to have the taxes for the nonpayment period paid and receive social security credit for such period.



The bill would also extend until December 31, 1977, the period during which those organizations that had received a refund or credit of social security taxes could file an actual waiver certificate to cover their employees under social security. Under Public Law 94-653, this period expired on April 18, 1977.

#### SPECIAL HEW STUDIES

##### (Section 201 of the Bill)

Because of the high priority with which the committee views the need to restore the social security program to financial soundness, it has largely limited its consideration of the current legislation to improvements in the funding of the program together with a few specific benefit changes. The committee recognizes, however, that there remains a need for review of many basic structural aspects of social security such as the problems of the disability program, the question of extending coverage to public employees, and the interrelationship of social security with other public and private income support programs. The committee intends, once the fiscal integrity of the existing system has been assured, to undertake a close examination of some of these structural questions. Some of the areas to be examined by the committee and the Congress in the future will require the availability of certain research data and analyses which are not now available. The committee has identified two areas in particular in which it believes that studies are clearly needed.

*Study of spouse's benefits.*—The social security benefit structure is designed to provide income replacement not only for the insured worker but also to provide additional benefits when that worker has a dependent spouse (and/or dependent children). The benefit structure was designed during a period when it was considered reasonable to assume that a wife would largely be dependent upon her husband's income. Today, a far greater proportion of married women have a substantial involvement in the work force. At the same time, however, it remains true that many women do not have a separate income. In addition, increasing attention is being paid today to the appropriateness of laws which treat, or appear to treat, men and women differently, and some such provisions in the Social Security Act have been successfully challenged on this basis in the courts. The committee believes that it will quite likely find it necessary to consider legislation dealing with these questions in the near future and the consideration of such legislation will be greatly aided if the Department undertakes now a thoughtful analysis of these issues which could be available when the committee considers these issues. For this reason, the committee bill requires the Department to study and report on proposals to eliminate dependency as a factor in the determination of entitlement to spouses' benefits and on proposals related to equal treatment of men and women under the social security program. Elements to be considered in the study include the nature and extent of women's participation in the labor force, the divorce rate, and the economic value of women's work in the home. In conducting this study, the Department would be directed to consult with the Justice Department Task Force on Sex Discrimination.

*Study of consumer price index.*—In the past few years, the automatic benefit adjustment provisions in the social security law have used the Consumer Price Index as a benchmark for adjusting the benefit formula as it applies both to persons already on the benefit rolls and as it applies to determining the initial benefit amount for new retirees. Under the revised benefit adjustment provisions of the committee bill, the Consumer Price Index will in the future be used solely as a mechanism for keeping benefits inflation proof once an individual is on the rolls. While the Consumer Price Index is the usually accepted measure of the rate of inflation, it is constructed in such a manner as to reflect the impact of rising prices on specific population groups. Some concern has been expressed for several years over the possibility that consumption patterns of elderly persons may differ so greatly from those groups covered by the CPI survey as to make the Consumer Price Index an inappropriate measure of the impact of inflation on the purchasing power of social security benefits. The committee believes that this is an issue which ought to be resolved and has included in the bill a requirement that the Department of Labor, in consultation with HEW, study the need to develop a special consumer price index for the elderly.

#### PERMANENT STATUS FOR TEMPORARY ADMINISTRATIVE LAW JUDGES

##### (Section 202 of the Bill)

The committee bill contains a provision which would convert to regular administrative law judges (ALJ's) the temporary ALJ's who were appointed under Public Law 94-202 to hear cases under titles II, XVI, and XVIII of the Social Security Act through 1978. These hearings officers have conducted hearings under the provisions of the Administrative Procedure Act (APA) in the same manner as regular ALJ's.

When Public Law 94-202 was enacted, Congress intended that these hearings officers would be converted expeditiously to regular ALJ status with great weight being given to their extensive adjudication experience in the social security definition of disability. Since then, only a few hearings officers have been appointed to regular ALJ positions.

One of the principal objectives of Public Law 94-202 was to make clear that Congress intended that SSI adjudications were under the Administrative Procedure Act and that SSI hearings examiners could hear all types of social security cases. The process of selecting ALJ's on the basis of this experience envisioned in Public Law 94-202 has not taken place. In making selections, the Civil Service Commission has not given adequate credit for the actual experience the temporary ALJ's obtained in adjudicating social security cases over a substantial period of time. The committee believes that this experience is most valuable and pertinent in appointing regular social security ALJ's.

To correct this situation, the bill would provide that the hearing officers appointed under section 1631(d)(2) of the Social Security Act (as in effect prior to January 2, 1976) to hold hearings under the supplemental security income program who had been deemed to be

appointed under and governed by the provisions of the Administrative Procedure Act of Public Law 94-202, shall be appointed to career-absolute ALJ positions as if they had been appointed under the Administrative Procedure Act, section 3105 of title 5, United States Code. They would have the same authority and tenure as hearing examiners appointed directly under section 3105 and be compensated at the same rate as social security ALJ's (GS-15). All provisions of the Administrative Procedure Act shall apply to them in the same manner as they apply to other administrative law judges. The former temporary black lung ALJ's who were appointed as temporary ALJ's under the authority of Public Law 94-202 are fully covered by this provision.

#### DELAY IN REPORTING DATE FOR SOCIAL SECURITY ADVISORY COUNCIL

##### (Section 203 of the Bill)

The Social Security Act requires that an advisory council on social security be appointed every 4 years. The statutory reporting date for the advisory council that is to be appointed this year is January 1, 1979. In view of the substantial changes in social security financing included in this bill, the committee believes it would be appropriate to provide a reasonable extension in this deadline so as to enable the coming advisory council more time to take into account the impact of this legislation. For this reason, the committee has included in the bill a 9-month extension—to October 1, 1979—of the reporting date.

#### C. PUBLIC ASSISTANCE AMENDMENTS

##### FISCAL RELIEF FOR STATE AND LOCAL WELFARE COSTS

##### (Section 301 of the Bill)

*Present law.*—The AFDC statute provides Federal matching of State AFDC cash maintenance payments at a rate of 50 to 83 percent, depending upon the State's per capita income. Overall, on a nationwide basis, the Federal Government provided about 54 percent of the funds for AFDC payments in fiscal year 1976, and the States and localities provided about 46 percent.

Between 1973 and 1977, the cost of the AFDC program to States and localities increased from about \$3.4 billion to \$5.2 billion, or about a 52-percent increase. In that same period the costs to States and localities of the AFDC, supplemental security income, social services, medicaid and general assistance programs combined grew from \$10.3 billion to nearly \$17.8 billion, or a 62-percent increase.

These statistics testify to the burden of the major welfare programs on State and local governments, a burden which has reached disturbing proportions, especially in certain areas of the country. The table below shows the distribution of expenditures for AFDC payments for each State:



AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC), TOTAL MAINTENANCE ASSISTANCE PAYMENTS, FISCAL YEAR 1976

State	Total payments computable for Federal funding	Federal funds (unadjusted)	Local funds	State funds	Percentage		
					Federal funds	Local funds	State funds
Alabama.....	\$61,864,423	\$46,923,718	.....	\$14,940,705	75.8	0	24.2
Alaska.....	13,457,182	6,623,664	.....	6,833,518	49.2	0	50.8
Arizona.....	33,977,273	18,895,181	.....	15,082,092	55.6	0	44.4
Arkansas.....	50,159,256	37,418,805	.....	12,740,451	74.6	0	25.4
California.....	1,424,692,553	712,346,276	\$253,580,487	458,765,790	50.0	17.8	32.2
Colorado.....	83,227,441	45,517,087	.....	21,009,386	54.7	20.1	25.2
Connecticut.....	131,786,271	65,893,135	16,700,968	65,893,136	50.0	0	50.0
Delaware.....	23,649,023	11,824,511	.....	11,824,512	50.0	0	50.0
District of Columbia.....	91,865,652	45,932,825	.....	45,932,827	50.0	0	50.0
Florida.....	120,436,323	68,315,478	.....	52,120,845	56.7	0	43.3
Georgia.....	122,679,985	90,120,035	.....	32,559,950	73.5	0	26.5
Guam.....	1,511,650	755,825	.....	755,825	50.0	0	50.0
Hawaii.....	64,632,077	32,316,039	.....	32,316,038	50.0	0	50.0
Idaho.....	19,796,706	13,497,394	.....	6,299,312	68.2	0	31.8
Illinois.....	720,065,139	358,715,572	.....	361,349,567	49.8	0	50.2
Indiana.....	115,583,003	66,425,552	20,351,153	28,806,298	57.5	17.6	24.9
Iowa.....	98,783,931	56,435,260	.....	42,348,671	57.1	0	42.9
Kansas.....	67,602,756	36,519,009	.....	31,083,747	54.0	0	46.0
Kentucky.....	132,730,945	94,730,076	.....	38,000,869	71.4	0	28.6
Louisiana.....	98,429,037	71,272,467	.....	27,156,570	72.4	0	27.6
Maine.....	46,662,236	32,943,539	.....	13,718,697	70.6	0	29.4
Maryland.....	154,441,383	77,220,692	4,413,052	72,807,639	50.0	2.9	47.1
Massachusetts.....	415,121,135	207,560,568	.....	207,560,567	50.0	0	50.0
Michigan.....	746,719,100	373,359,550	.....	373,359,550	50.0	0	50.0
Minnesota.....	156,149,764	88,757,624	29,087,774	38,304,366	56.9	18.6	24.5
Mississippi.....	32,017,662	26,504,646	.....	5,513,016	82.8	0	17.2
Missouri.....	140,017,934	85,774,453	.....	54,243,481	61.3	0	38.7



Montana.....	12,786,884	8,082,589	1,008,552	3,695,743	63.2	7.9	28.9
Nebraska.....	28,780,341	15,998,096	.....	12,782,245	55.6	0	44.4
Nevada.....	10,317,578	5,158,789	.....	5,158,789	50.0	0	50.0
New Hampshire.....	23,673,490	14,270,380	6,700	9,396,410	60.2	.....	39.7
New Jersey.....	426,793,857	213,396,928	52,226,857	161,170,072	50.0	12.2	37.8
New Mexico.....	32,125,612	23,544,860	.....	8,580,752	73.3	0	26.7
New York.....	1,563,184,768	766,768,978	428,746,351	367,669,439	49.1	27.4	23.5
North Carolina.....	123,889,145	84,281,786	19,711,194	19,896,165	68.0	16.0	16.0
North Dakota.....	13,122,019	7,556,970	1,044,992	4,520,057	57.6	8.0	34.4
Ohio.....	446,319,654	242,753,261	.....	203,566,393	54.4	0	45.6
Oklahoma.....	65,506,367	44,164,394	.....	21,341,973	67.4	0	32.6
Oregon.....	113,521,471	67,023,078	1,165	46,497,228	59.0	.....	41.0
Pennsylvania.....	650,945,260	360,558,579	.....	290,386,681	55.4	0	44.6
Puerto Rico.....	24,171,922	12,085,960	.....	12,085,962	50.0	0	50.0
Rhode Island.....	51,270,478	28,993,455	.....	22,277,023	56.5	0	43.5
South Carolina.....	46,352,487	35,670,249	.....	10,682,238	77.0	0	23.0
South Dakota.....	20,140,672	13,540,573	.....	6,600,099	67.2	0	32.8
Tennessee.....	85,756,646	62,722,396	.....	23,034,250	73.1	0	26.9
Texas.....	137,686,030	100,157,072	.....	37,528,958	72.7	0	27.3
Utah.....	35,237,274	24,680,187	.....	10,557,087	70.0	0	30.0
Vermont.....	26,538,100	18,528,902	.....	8,009,198	70.0	0	30.0
Virgin Islands.....	1,849,649	924,824	.....	924,825	50.0	0	50.0
Virginia.....	138,678,345	80,904,947	1,462,344	56,311,054	58.3	1.1	40.6
Washington.....	160,546,774	86,245,728	.....	74,301,046	53.7	0	46.3
West Virginia.....	52,466,290	37,671,723	.....	14,794,567	71.8	0	28.2
Wisconsin.....	210,875,774	126,335,680	.....	84,540,094	59.9	0	40.1
Wyoming.....	4,900,181	2,986,169	684,505	1,229,507	60.9	14.0	25.1
Total.....	9,675,496,908	5,257,605,534	829,026,094	3,588,865,280	54.3	8.6	37.1

<sup>1</sup> The sum of \$755,825 was reported by Guam as a *local* expenditure; but is reported here as a *State (territorial)* expenditure. Adjustments have been made for errors in the printed report.

Source: Office of Financial Management, Division of Finance, Fiscal year 1976 State expenditures for public assistance programs approved under titles I, IV-A, X, IV, XVI, XIX, XX of the Social Security Act. (SRS) 77-04023. This report is compiled from State expenditure reports submitted quarterly by States.

*Committee provision.*—The committee bill includes several provisions which, over the long term, should assist the States in bringing their welfare costs under greater control. The committee is convinced, however, that in the meantime State and local governments should be given some immediate relief from their fiscal burden.

The committee amendment would provide the States with \$400 million in fiscal relief in fiscal year 1978.

Since one of the major elements of State and local welfare costs is the AFDC program, the committee bill provides that half of the fiscal relief payment would be allocated among the States in the same proportion as AFDC expenditures for December 1976. However, State and local welfare costs also arise from a variety of other programs which provide assistance and services to the needy. The distribution of costs under these other programs does not necessarily follow the same pattern as AFDC. The committee believes it can most appropriately recognize other elements of the welfare burden on States and localities by utilizing the general revenue sharing formula for allocating the other half of the payment. The committee recognizes that States and local governments have been led to expect that the Federal Government would provide them with some fiscal relief from their welfare costs. The committee believes that the amount provided in this bill represents a significant step in this direction, taking into account the needs of the States and localities as well as the fiscal situation of the Federal Government.

Although in most States the cost of the non-Federal share of AFDC is borne entirely by the State, a number of States require substantial contribution by localities to the cost of the program. States reporting local contributions ranging from 1 to 27 percent of the cost of AFDC maintenance payments in fiscal year 1976 include: California, Colorado, Indiana, Maryland, Minnesota, Montana, New Jersey, New York, North Carolina, North Dakota, Virginia, and Wyoming. Localities in these States can expect to benefit from the provision in the committee bill which requires the States to pass the fiscal relief through to localities in any case where local governments pay part of the program's costs. However, States would not be required to pass through an amount in excess of 90 percent of the AFDC costs for which the local government was otherwise responsible.

Although the fiscal relief provisions of the committee bill would be computed under a formula related in part to the AFDC program and would be provided to the States in the form of increased funding for that program, the committee wishes to make clear that it views these provisions as an attempt to provide some relief for the overall welfare burden faced by the States. That burden falls not only on the AFDC program but also in the areas of aid to the aged, blind, and disabled in States which supplement the SSI program, in general assistance, and in programs of social and child welfare services.

The table below shows how the fiscal relief payment under the bill would be distributed among the States:

## FISCAL RELIEF FOR STATES UNDER COMMITTEE BILL

[Dollars in thousands]

State	Percentage distribution	State fiscal relief payment November 1977
Alabama.....	1.2	\$4,663
Alaska.....	.2	791
Arizona.....	.7	2,795
Arkansas.....	.7	2,930
California.....	13.5	54,001
Colorado.....	1.0	3,787
Connecticut.....	1.3	5,282
Delaware.....	.3	1,118
District of Columbia.....	.6	2,578
Florida.....	2.1	8,452
Georgia.....	1.6	6,284
Guam.....	(*)	101
Hawaii.....	.6	2,434
Idaho.....	.3	1,094
Illinois.....	6.2	24,854
Indiana.....	1.6	6,495
Iowa.....	.1	4,167
Kansas.....	.8	3,204
Kentucky.....	1.5	6,086
Louisiana.....	1.6	6,409
Maine.....	.5	2,099
Maryland.....	1.8	6,994
Massachusetts.....	3.8	15,341
Michigan.....	5.6	22,506
Minnesota.....	1.7	6,890
Mississippi.....	.9	3,499
Missouri.....	1.7	6,695
Montana.....	.2	955
Nebraska.....	.4	1,758
Nevada.....	.2	665
New Hampshire.....	.3	1,046
New Jersey.....	3.7	14,868
New Mexico.....	.5	1,971
New York.....	14.2	56,600
North Carolina.....	1.9	7,493

See footnotes at end of table.



## FISCAL RELIEF FOR STATES UNDER COMMITTEE BILL—Con.

[Dollars in thousands]

State	Percentage distribution	State fiscal relief payment November 1977
North Dakota.....	.2	704
Ohio.....	4.2	16,689
Oklahoma.....	.9	3,694
Oregon.....	1.2	4,746
Pennsylvania.....	6.0	24,044
Puerto Rico.....	.2	962
Rhode Island.....	.5	1,936
South Carolina.....	.9	3,564
South Dakota.....	.2	976
Tennessee.....	1.3	5,294
Texas.....	3.1	12,438
Utah.....	.5	1,848
Vermont.....	.3	1,033
Virgin Islands.....	(*)	70
Virginia.....	1.7	6,789
Washington.....	1.5	5,834
West Virginia.....	.7	2,856
Wisconsin.....	2.3	9,169
Wyoming.....	.1	466
Total.....	100.0	400,000

\*Less than .05 percent.

## QUALITY CONTROL INCENTIVES TO REDUCE ERRORS

(Section 302 of the Bill)

*Background.*—For at least the last 25 years there has been recognition at the Federal level of the need for a program to reduce errors in the Federal-State public assistance programs. "Quality control" techniques were first used on a limited basis in 1952. However, at that time they were limited to periodic Federal reviews of samples of case records. No verification was made of the information in the case file, and full field investigations were not part of the system. As the result of a nationwide study in the early 1960's that indicated widespread ineligibility in some States, the Department of Health, Education, and Welfare developed a new and expanded quality control system to be implemented by January 1964 in all States for all public assistance programs. This new system also produced little in the way of results,

and the quality control program underwent major revision again in 1970. Basic changes made at that time included the use of field investigations, requirements on States for reporting of results, the establishment of acceptable error levels, and implementation of corrective actions.

Both the States and the Department of Health, Education, and Welfare showed a lack of initiative in implementing the new system. However, in 1973 HEW issued a new set of quality control regulations for AFDC. They differed from the 1970 rules in one major aspect—they set forth a procedure by which the Department would not match portions of State claims for AFDC payments based on the extent to which the State's error rates exceeded the acceptable Federal tolerance levels. These levels were set at 3 percent for ineligible cases, 5 percent for overpaid cases, and 5 percent for underpaid cases.

The error measurement and corrective action components of the quality control program have not been questioned. As we stated in the May 1976 Federal district court decision (*Maryland v. Mathews*), "plaintiffs assert that they do not question HEW's right to set quality controls." However, the legality of the "disallowance" or "fiscal sanction" provision for limiting Federal matching with respect to State claims has been challenged. In the above cited case the judge ruled that "under the Secretary's rulemaking power to assure the efficient administration of the [Social Security Act], it can be concluded that a regulation establishing a withholding of Federal financial participation in a specified amount set by a tolerance level is consistent with the Act." However, the remainder of the decision invalidated the disallowance regulations based on the unreasonableness of the "tolerance levels" used in determining the extent of any disallowance. As a result of the court decision, fiscal sanctions have never been applied and are no longer a part of the Federal quality control regulations.

Despite the controversy that has existed in the last few years over the penalty aspects of the quality control program, the committee believes that the program has been responsible for significant reductions in State AFDC error rates since 1973. The national average has fallen from a 42.6-percent case error rate and a 16.5-percent payment error rate for the period April–September 1973 to a case error rate of 23.2 percent and a payment error rate of 8.5 percent for July–December 1976. Table shows the changes in payment error rates for each State.

AFDC—CHANGE IN PAYMENT ERROR RATES, JULY TO DECEMBER 1976 OVER APRIL TO SEPTEMBER 1973<sup>1</sup>

State	Amount of payment errors as a percent of total payments							
	Ineligible and eligible overpaid				Ineligible but overpaid			
	April to September 1973	July to December 1976	Percent change	April to September 1973	April to September 1973	July to December 1976	Percent change	July to December 1976
U.S. average <sup>2</sup> . . . .	16.5	8.5	-48.5	9.1	4.6	-49.5	7.4	3.9
Alabama . . . . .	15.1	6.0	-60.3	9.6	2.9	-69.8	5.5	3.1
Alaska . . . . .	23.1	12.5	-45.9	15.9	9.3	-41.5	6.4	3.2
Arizona . . . . .	15.3	12.4	-19.0	7.5	8.2	+9.3	7.7	4.2
Arkansas . . . . .	3.6	7.3	+102.8	1.8	3.2	+77.8	1.8	4.1
California . . . . .	12.3	4.7	-61.8	6.9	2.2	-68.1	5.4	2.5
Colorado . . . . .	7.3	7.5	+2.7	2.3	4.1	+78.3	5.1	3.3
Connecticut . . . . .	10.8	7.6	-29.6	5.6	4.4	-21.4	5.2	3.2
Delaware . . . . .	19.6	9.5	-51.5	9.9	6.5	-34.3	9.7	3.0
District of Columbia . . . . .	18.0	19.8	+10.0	9.8	12.7	+29.6	8.2	7.1
Florida . . . . .	18.8	7.0	-62.8	7.9	3.8	-51.9	10.9	3.2
Georgia . . . . .	14.9	12.2	-18.1	5.1	7.6	+49.0	9.8	4.6
Hawaii . . . . .	11.2	9.4	-16.1	4.6	5.9	+28.3	6.7	3.5
Idaho . . . . .	9.9	3.8	-61.6	6.3	4.4	-93.7	3.6	3.4
Illinois . . . . .	22.4	12.1	-46.0	10.9	5.2	-52.3	11.5	6.9
Indiana . . . . .	13.2	2.3	-82.6	7.1	7.7	-90.1	6.0	1.6
Iowa . . . . .	15.7	11.0	-29.9	8.3	6.2	-25.3	7.3	4.7
Kansas . . . . .	15.3	5.6	-63.4	8.5	2.6	-69.4	6.7	3.0
Kentucky . . . . .	18.3	6.2	-66.1	7.9	3.2	-59.5	10.4	3.0
Louisiana . . . . .	21.2	8.5	-59.9	13.6	5.0	-63.2	7.6	3.6
Maine . . . . .	7.1	11.6	+63.4	4.1	5.8	+41.5	3.0	5.8
Maryland . . . . .	23.0	11.5	-50.0	13.1	6.6	-49.6	9.9	4.8
Massachusetts . . . . .	15.9	12.0	-24.5	8.5	7.6	-10.6	7.4	4.4
Michigan . . . . .	11.4	9.2	-19.3	5.9	4.3	-27.1	5.4	4.8
Percent change								
U.S. average <sup>2</sup> . . . .	16.5	8.5	-48.5	9.1	4.6	-49.5	7.4	3.9
Alabama . . . . .	15.1	6.0	-60.3	9.6	2.9	-69.8	5.5	3.1
Alaska . . . . .	23.1	12.5	-45.9	15.9	9.3	-41.5	6.4	3.2
Arizona . . . . .	15.3	12.4	-19.0	7.5	8.2	+9.3	7.7	4.2
Arkansas . . . . .	3.6	7.3	+102.8	1.8	3.2	+77.8	1.8	4.1
California . . . . .	12.3	4.7	-61.8	6.9	2.2	-68.1	5.4	2.5
Colorado . . . . .	7.3	7.5	+2.7	2.3	4.1	+78.3	5.1	3.3
Connecticut . . . . .	10.8	7.6	-29.6	5.6	4.4	-21.4	5.2	3.2
Delaware . . . . .	19.6	9.5	-51.5	9.9	6.5	-34.3	9.7	3.0
District of Columbia . . . . .	18.0	19.8	+10.0	9.8	12.7	+29.6	8.2	7.1
Florida . . . . .	18.8	7.0	-62.8	7.9	3.8	-51.9	10.9	3.2
Georgia . . . . .	14.9	12.2	-18.1	5.1	7.6	+49.0	9.8	4.6
Hawaii . . . . .	11.2	9.4	-16.1	4.6	5.9	+28.3	6.7	3.5
Idaho . . . . .	9.9	3.8	-61.6	6.3	4.4	-93.7	3.6	3.4
Illinois . . . . .	22.4	12.1	-46.0	10.9	5.2	-52.3	11.5	6.9
Indiana . . . . .	13.2	2.3	-82.6	7.1	7.7	-90.1	6.0	1.6
Iowa . . . . .	15.7	11.0	-29.9	8.3	6.2	-25.3	7.3	4.7
Kansas . . . . .	15.3	5.6	-63.4	8.5	2.6	-69.4	6.7	3.0
Kentucky . . . . .	18.3	6.2	-66.1	7.9	3.2	-59.5	10.4	3.0
Louisiana . . . . .	21.2	8.5	-59.9	13.6	5.0	-63.2	7.6	3.6
Maine . . . . .	7.1	11.6	+63.4	4.1	5.8	+41.5	3.0	5.8
Maryland . . . . .	23.0	11.5	-50.0	13.1	6.6	-49.6	9.9	4.8
Massachusetts . . . . .	15.9	12.0	-24.5	8.5	7.6	-10.6	7.4	4.4
Michigan . . . . .	11.4	9.2	-19.3	5.9	4.3	-27.1	5.4	4.8



Minnesota.....	9.4	5.8	-38.3	5.0	3.4	-32.0	4.4	2.4	-45.5	1.4	3	-78.6
Mississippi.....	5.2	9.2	+76.9	2.0	4.6	+130.0	3.2	4.6	+43.7	1.9	2.2	+15.8
Missouri.....	12.3	10.5	-14.6	6.8	7.1	+4.4	5.5	3.4	-38.2	1.4	1.2	-14.3
Montana.....	16.9	13.3	-21.3	7.8	3.9	-50.0	9.0	9.4	+4.4	1.4	2.2	+57.1
Nebraska.....	8.6	6.9	-19.8	5.4	3.4	-37.0	3.2	3.5	+9.4	(*)	1.4	(*)
Nevada.....	3.5	8.5	-85.7	1.5	.....	-100.0	2.0	4.5	-75.0	9	1.1	-88.9
New Hampshire.....	21.4	8.5	-60.3	10.0	4.0	-60.0	11.4	4.6	-59.6	1.3	.6	-53.8
New Jersey.....	9.4	5.4	-42.6	4.0	2.0	-50.0	5.4	3.4	-37.0	9	7	-22.2
New Mexico.....	6.5	5.4	-16.9	2.5	3.4	+36.0	4.0	2.0	-50.0	1.2	.7	-41.7
New York.....	26.5	12.1	-54.3	16.4	7.2	-56.1	10.1	4.9	-51.5	1.6	1.1	-31.3
North Carolina.....	13.2	6.7	-49.2	6.6	2.6	-60.6	6.5	4.0	-38.5	3.9	1.5	-61.5
North Dakota.....	2.1	3.4	+61.9	.....	1.7	(*)	2.1	1.7	-19.0	.7	.2	-71.4
Ohio.....	21.7	11.3	-47.9	11.5	7.3	-36.5	10.2	4.0	-60.8	1.0	.5	-50.0
Oklahoma.....	8.1	3.1	-61.7	3.0	1.0	-66.7	5.1	2.1	-58.8	.6	.4	-33.3
Oregon.....	10.5	7.9	-24.8	6.0	3.6	-40.0	4.5	4.3	-4.4	.7	.6	-14.3
Pennsylvania.....	24.6	9.3	-62.2	16.4	5.4	-67.1	8.2	3.9	-52.4	1.0	.5	-50.0
Puerto Rico.....	22.9	8.9	-61.1	14.6	3.8	-74.0	8.4	5.1	-39.3	2.7	2.0	-25.9
Rhode Island.....	10.7	3.8	-64.5	4.1	1.6	-61.0	6.6	2.3	-65.2	4	.5	+25.0
South Carolina.....	17.3	8.5	-50.9	8.7	3.3	-62.1	8.6	5.2	-39.5	2.5	1.7	-32.0
South Dakota.....	7.7	5.3	-31.2	2.3	2.1	-8.7	5.4	3.2	-40.7	.3	.9	+200.0
Tennessee.....	12.9	8.6	-33.3	8.2	4.9	-40.2	4.7	3.7	-21.3	1.9	1.1	-42.1
Texas.....	15.2	5.4	-64.5	8.7	3.4	-60.9	6.5	2.1	-67.7	1.1	.4	-63.6
Utah.....	9.4	8.1	-13.8	6.0	5.1	-15.0	3.4	3.0	-11.8	9	.6	-33.3
Vermont.....	17.9	6.7	-62.6	10.0	1.4	-86.0	7.8	5.3	-32.1	.7	.2	-71.4
Virgin Islands.....	9.4	16.4	+74.5	4.2	11.4	+171.4	5.2	5.0	-3.8	1.7	2.9	+70.6
Virginia.....	14.9	6.4	-57.0	5.3	3.6	-32.1	9.6	2.8	-70.8	2.7	1.4	-48.1
Washington.....	8.0	5.4	-32.5	5.2	2.6	-50.0	2.8	2.8	.....	.4	.5	+25.0
West Virginia.....	10.2	4.9	-52.0	6.4	1.9	-70.3	3.8	3.0	-21.1	.9	.3	-66.7
Wisconsin.....	7.3	3.9	-46.6	4.2	2.1	-50.0	3.1	1.8	-41.9	1.5	1.1	-26.7
Wyoming.....	11.3	4.0	-64.6	7.4	1.8	-75.7	3.9	2.2	-43.6	1.9	1.0	-47.4

<sup>1</sup> See footnote 1, table 11.

<sup>2</sup> See footnote 2, table 11.

<sup>3</sup> Less than 0.05 percent.

<sup>4</sup> See footnote 3, table 11.

Source: U.S. Department of Health, Education, and Welfare.

The committee believes that this progress can be continued, and that with proper incentives the States can be encouraged to decrease the number of errors in their AFDC caseload to more acceptable levels. The committee notes that the General Accounting Office in its recent report on the AFDC quality control program recommended that legislation establishing an incentive for controlling payment errors be enacted.

*Committee provision.*—The committee amendment would establish a system of fiscal incentives for States to improve their dollar error rates with respect to eligibility and overpayment of aid paid under the approved State plan. Instead of applying sanctions on the States, the dollar error rates would be used as the basis for a system of incentives, which would give the States motivation for expanding their quality control efforts and improving program administration. Under the amendment States which have dollar error rates of, or reduce their dollar error rates to, less than 4 percent but not more than 3.5 percent of the total expenditures would receive 10 percent of the Federal share of the money saved, as compared with the Federal costs at a 4-percent payment error rate. This percentage would increase proportionately as shown in the following table:

	The State would retain this percent of the Federal savings
If the error rate is:	
At least 3.5 percent but less than 4 percent.....	10
At least 3 percent but less than 3.5 percent.....	20
At least 2.5 percent but less than 3 percent.....	30
At least 2 percent but less than 2.5 percent.....	40
Less than 2 percent.....	50

#### ACCESS TO WAGE INFORMATION FOR AFDC VERIFICATION

##### (Section 303 of the Bill)

*Present law.*—Quality control findings indicate that 76 percent of client errors in the AFDC program are the result of non-reporting of income. States have particular difficulty in many cases in verifying the source and amount of earned income. In many cases they are dependent solely on the recipient to supply wage information.

*Committee provision.*—The committee bill would improve the capacity of States to acquire accurate wage data by providing authority for the States to have access to earnings information in records maintained by the Social Security Administration and State employment security agencies. Such information would be obtained by a search of wage records conducted by the Social Security Administration or the employment security agency to identify the fact and amount of earnings and the identity of the employer in the case of individuals who were receiving AFDC at the time of the earnings. The Secretary of Health, Education, and Welfare would be authorized to establish necessary safeguards against improper disclosure of the information. Beginning October 1979, the States would be required to request and use the earnings information made available to them under the committee amendment.

Although the records of wages maintained by the Social Security Administration and by State employment security agencies may not be available on a current basis, it seems inevitable that a procedure for screening against one or the other of these two sets of records should greatly increase the incentive for recipients to accurately report their earned income. Where welfare agencies are requesting the wage data from the Social Security Administration, each State or local administering agency would designate a single official who would be authorized to make the necessary request for information. Alternatively, procedures for requesting such information could be worked out by mutual agreement of the welfare agency and the Social Security Administration. The cost of searching wage records would be reimbursed to the agency maintaining the records and would be matchable as an administrative expense of the welfare agency.

**AUTHORITY FOR STATES TO OPERATE DEMONSTRATION PROJECTS  
MAKING EMPLOYMENT MORE ATTRACTIVE FOR WELFARE RE-  
CIPIENTS**

(Section 304 of the Bill)

*Present law.*—Section 1115 of the Social Security Act allows the Secretary of Health, Education, and Welfare to waive any of the State plan requirements of the Federal welfare law for the sake of experimental, pilot, or demonstration projects which in the Secretary's judgment are likely to assist in promoting the objectives of the welfare programs. The committee notes that under this existing law, there is considerable authority at the Federal level to carry on research and demonstration on better ways of developing work incentives for welfare recipients. Exclusive use of this approach, however, ignores one of the basic strengths of federalism; namely, that individual States should be free to experiment with better ways of solving governmental problems. A number of States have attempted to institute innovative employment programs for welfare recipients but they have been inhibited by HEW because of its slowness to act under current demonstration authority. The committee bill will alleviate this situation.

*Committee provision.*—Under the committee amendment, which is similar in intent to an amendment reported by the committee and approved by the Senate in 1973 (section 164 of H.R. 3153, 93d Congress), this authority would be both broadened and made more explicit to emphasize a major objective for demonstration projects. This objective is to permit States to achieve more efficient and effective use of funds for public assistance recipients, to reduce dependency, and to improve the living conditions and increase the incomes of persons who are on assistance (or who would be on assistance if they were not participating in the demonstration project) by conducting experiments designed to make employment more attractive for welfare recipients.

States would be limited to not more than three demonstration projects under this authority; one of the projects could be statewide. None of the projects could last for more than 2 years, and all authority for the projects would terminate September 30, 1980.

In pursuing these objectives under the committee bill, States would be permitted for demonstration purposes to waive the requirements of the Aid to Families with Dependent Children program relating to (1)



statewideness; (2) administration by a single State agency; (3) the earned income disregard (but in no case could a State offer an earned income disregard of more than 50 percent); and (4) the work incentive program. The State could waive any or all of these requirements on its own initiative. Unless the Secretary, within 45 days, disapproved the waiver as inconsistent with the purposes of section 1115 and the AFDC law, the demonstration would be considered approved and could be operated by the State.

As part of a demonstration project, the State could use welfare funds to pay part of the cost of public service employment. The State could add additional amounts to pay a wage higher than the amount of the welfare payment. Under the committee bill, revenue sharing funds could be used for the non-welfare share of the salaries. The committee amendment requires the States, in making arrangements for public service employment, to provide that appropriate standards for the health, safety, and other conditions applicable to the performance of work and training are established and maintained, that projects will not result in the displacement of employed workers, and that the conditions of work, training, education, and employment are reasonable in the light of such factors as the type of work, geographical region, and proficiency of the participant, and that appropriate workmen's compensation protection is provided to all participants. The State welfare agency would also be free to contract with non-profit private institutions organized for a public purpose, such as hospitals, to carry out such projects.

When unemployed fathers are placed in public service employment. Federal matching will continue for the portion of the salary equal to the former welfare payments and it will be available for wage payments.

Public Service employment is not the only type of experimentation authorized by the committee bill. States may wish, for example, to experiment with the income disregard. If they do so, however, they will not be allowed to conduct a test which disregards more than one-half of a welfare recipient's earned income.

Participation by welfare recipients in the demonstration projects would be voluntary.

The costs incurred by the States in conducting demonstration projects under this provision of the committee bill would be eligible for the same Federal matching as applies to other costs of the AFDC program, subject to the limitation that the amount matchable with respect to any participant in the project may not exceed the amount which would otherwise have been payable to him under the regular provisions of the AFDC program. Thus, these projects should not result in increased Federal expenditures.

#### EARNED INCOME DISREGARD

##### (Section 305 of the Bill)

*Present law.*—Under present law States are required, in determining need for Aid to Families with Dependent Children, to disregard:

1. All earned income of a child who is a full-time student, or a part-time student who is not a full-time employee; and
2. The first \$30 earned monthly by an adult plus one-third of additional earnings. Costs related to work (such as transportation costs,

uniforms, union dues, child care and other items) are also deducted from earnings in calculating the amount of welfare benefit.

Three problems have been raised concerning the earned income disregard under present law. First, Federal law neither defines nor limits what may be considered a work-related expense, and this has led to great variation among States and to some cases of abuse. Second, the requirement for itemization of individual work expenses results in administrative complexity and error. Third, some States have complained that the lack of an upper limit on the earned income disregard has the effect of keeping people on welfare even after they are working full-time at wages well above the poverty line.

In an effort to curb the abuse of the work expense provision and to simplify its administration, a number of States in the past established standard amounts to be used in the case of all AFDC recipients with earnings. However, in 1974 the U.S. Supreme Court in *Shea v. Vialpando* ruled the policy of using a fixed work expense disregard, regardless of actual costs, as contrary to the Social Security Act. It said, however, that a standard allowance which would enhance administrative efficiency would be permissible if it provided for individualized consideration of expense in excess of the standard amount. Since the ruling, a number of States have used standard amounts for work expenses, but at the same time they are required to allow individual recipients to make additional claims for work expenses if they can show that they do in fact have such expenses.

In the summer of 1975 the Congressional Research Service conducted a survey to determine State practices with respect to work expenses. The responses indicated very wide variations among the States, and also indicated that in most instances individual itemization of work expenses is necessary. An analysis of AFDC work expenses which are allowable in the 42 States responding to the survey showed the following:

*Child care.*—Twenty-one of the responding States indicated that they imposed no dollar limit on child care expenses. Of those that did, the range of allowable expense was from \$17 to \$50 a week. (Some States indicated that child care was not an allowable expense under AFDC. Presumably, in those States, if child care were necessary for an AFDC family, it would be provided through title XX vendor payments.)

*Transportation, special clothing and lunch.*—Ten States indicated that they had a standard amount for two or all of these items, ranging from about \$25 to \$44 a month. Seven States indicated that they disallowed one or more of the items. More specifically, States reported for:

1. *Transportation.*—Twenty States said they had no limit for transportation expenses. Those that gave mileage limitations ranged from 6 cents to 20 cents a mile. States did not indicate whether they allowed car payments or repairs as work expenses.

2. *Special clothing.*—Twenty-five States indicated that there was no limit for these expenses. The few that have established limits for this category generally specified a limit of \$5 a month.

3. *Lunch.*—Fourteen States said they had not established a limit. Those that have, gave a range of from \$0.25 to \$1 a day.

States did not provide information to indicate what kinds of exceptions they make to their general rules, although it is known that some exceptions are made. For example, New York indicated a limit of \$50 a week for child care. However, higher amounts are generally allowable in New York City.

In addition to the above-mentioned items, States generally allow for mandatory tax deductions and union dues.

*Committee provision.*—The committee believes that the broad discretion that now exists in determining work expenses leads to abuse, and also results in unnecessary administrative complexities and errors. The committee amendment would address these problems by requiring States to disregard the first \$60 earned monthly by an individual working full time (\$30 in the case of an individual working part-time), in lieu of individual itemized work expenses. In addition, reasonable child care expenses, subject to limitations prescribed by the Secretary, would then be disregarded. To preserve an incentive for additional earnings, but also to provide for a phaseout of welfare payments at a reasonable level, the committee amendment would provide for the disregard of one-third of remaining earnings, up to \$300 plus one-fifth of remaining earnings above \$500 a month. Thus, in a State where the payment standard is \$300 a month for a family of four (in July 1976 the median State's payment standard was \$317), the level of earnings at which a family would no longer be eligible for any AFDC payment would be \$585 a month (assuming child care expenses of \$100). A State which implements this section upon enactment and prior to the effective date would not be regarded as out of compliance with requirements imposed with respect to improved State plans under part A of title IV of the Social Security Act.

The following example compares the effects of present law and the committee bill.

Example: Recipient earns \$500 per month, pays \$200 for child care; pays \$110 for union dues, parking fees, interest on automobile, withholding taxes, etc. State AFDC payment for family with no income would be \$300.

Present law:

	<i>Amount</i>
\$500 is reduced by:	
Basic disregard.....	\$30
33½ percent of earnings above basic disregard.....	157
Child care costs.....	200
Other work expenses.....	110
	<hr/>
Total disregard.....	497
Family is paid in AFDC:	
\$300 full payment less the \$3 of earned income which is not disregarded.....	297
	<hr/>

Committee bill:

\$500 is reduced by:	
Basic disregard.....	60
Allowable child care <sup>1</sup> .....	150
33½ percent of the 1st \$300 of earnings above other disregards;	
20 percent of earnings above that \$300 <sup>2</sup> .....	97
	<hr/>
Total disregard.....	307
Family is paid in AFDC:	
\$300 full payment less the \$193 of earned income which is not disregarded.....	107

<sup>1</sup> Assumes that HEW limit on deductible child care would be \$150 for the individual in this example.

<sup>2</sup> In this example, the excess income above other disregards is only \$290; thus the 20-percent factor does not come into play.



## D. ACTUARIAL SECTION

## Actuarial Soundness of the OASDHI System

In order to determine the financial soundness of the OASDHI system over a long-range period, the concept of long-range actuarial balance has normally been used. The long-range actuarial balance for OASDI is the difference between the 75-year average OASDI tax rate and the 75-year average of the annual expenditures expressed as a percentage of taxable payroll. The long-range actuarial balance for HI is calculated in a similar fashion, but over a 25-year period. If the difference is positive (that is, if the average tax rate exceeds the average expenditures expressed as a percentage of taxable payroll), the system is said to have an actuarial surplus; if it is negative, the system is said to have an actuarial deficit. The Office of the Actuary, Social Security Administration, advises the committee that it is desirable to keep the program in as close balance as possible, preferably with a slight positive balance. In the past when there has been an actuarial imbalance (i.e., an actuarial deficit or actuarial surplus), the Congress has traditionally acted to revise the financing of the program so as to bring it into close actuarial balance.

The long-range cost of the OASDI system under the committee bill is estimated to be 14.16 percent of taxable payroll and the average OASDI tax rate is 14.22 percent of taxable payroll. Thus, the actuarial balance under the committee bill would be a surplus of + 0.06 percent of payroll. This is consistent with the goal of achieving a slight positive balance for the system.

The long-range cost of the HI system under the committee bill is estimated to be 3.84 percent of taxable payroll and the average HI tax rate is 2.62 percent. This results in a substantial long-range deficit, making the actuarial balance -1.22 percent of taxable payroll, which is similar to the deficit under present law. (This bill does not address the problems of financing of the HI system. Under this bill, as under present law, the HI program is projected to become exhausted in 1987 unless changes are made to improve its financial situation.)

## Actuarial Cost Estimates for the OASDI System

## 1. EFFECT OF THE BILL ON THE ACTUARIAL BALANCE OF THE OASDI SYSTEM

From an actuarial cost standpoint, the major features of the committee bill are as follows:

(a) *Revised benefit formula for future retirees.*—Under the bill the cost-of-living increase provisions in present law would apply only to individuals who are eligible for benefits at the time each increase occurs. A new automatic mechanism is provided for persons retiring in the future. These people will have their benefits determined on the basis of their previous earnings after those earnings have been adjusted to reflect changes in wage levels occurring in the economy. The result will be that average benefit levels as a percent of average pre-retirement income will remain at approximately the same level as for those persons who retired at the beginning of 1976.

(b) *Increase in amount of earnings subject to employer tax.*—The committee bill would increase the base for employer taxes to \$50,000 for 1979–84. This amount would be further increased to \$75,000 in 1985 and would be held at that level until the employee taxable base catches up with it. Thereafter, it would increase automatically, as under present law, to reflect yearly increases in average wage levels.

(c) *Increase in amount of earnings subject to employee (or self-employed) tax.*—The bill would also increase the amount of annual earnings subject to the employee or self-employment tax. Under the bill, there would be four \$600 increases over present law levels in 1979, 1981, 1983, and 1985. The tax base for employees and self-employed persons, as under existing law, will also continue to automatically increase as wage levels rise.

(d) *Tax rate increase.*—The bill also provides for modification of the social security tax rate schedules, to bring in additional revenue (see tables 8 and 9).

The changes in the hospital insurance (HI) tax rates will, in combination with the tax base changes, leave the HI trust fund in approximately the same position as it would be under existing law.

Effective in 1981, the OASDI tax rate applicable to self-employed persons would be increased to one and one-half times the tax rate which applies to employees.

TABLE 8.—CONTRIBUTION RATES FOR OLD-AGE, SURVIVORS AND DISABILITY INSURANCE UNDER PRESENT LAW AND UNDER THE COMMITTEE BILL

[In percent]

Calendar years	Employer and employee rate, each		Self-employed rate	
	Present law	Committee bill	Present law	Committee bill <sup>1</sup>
1977.....	4.95	4.95	7.00	7.00
1978.....	4.95	5.05	7.00	7.10
1979–80.....	4.95	5.085	7.00	7.05
1981–84.....	4.95	5.35	7.00	8.00
1985–89.....	4.95	5.65	7.00	8.50
1990–94.....	4.95	6.10	7.00	9.15
1995–2000.....	4.95	6.70	7.00	10.05
2001–2010.....	4.95	7.30	7.00	10.95
2011 and after....	5.95	7.80	7.00	11.70

<sup>1</sup> Approximately 1½ times the employee rate beginning in 1981.

TABLE 9.—CONTRIBUTION RATES FOR OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE UNDER THE COMMITTEE BILL, SUBDIVIDED BY TRUST FUND

[In percent]

Calendar years	Employer and employee rate, each			Self-employed rate		
	OASI	DI	Total	OASI	DI	Total
1977.....	4.375	0.575	4.95	6.185	0.815	7.00
1978.....	4.275	.775	5.05	6.010	1.090	7.10
1979-80.....	4.335	.750	5.085	6.010	1.040	7.05
1981-84.....	4.525	.825	5.35	6.7625	1.2375	8.00
1985-89.....	4.700	.950	5.65	7.075	1.425	8.50
1990-94.....	5.050	1.050	6.10	7.575	1.575	9.15
1995-2000.....	5.500	1.200	6.70	8.250	1.800	10.05
2001-10.....	5.950	1.350	7.30	8.925	2.025	10.95
2011 and after....	6.300	1.500	7.80	9.425	2.250	11.70

(e) *Benefits for dependent spouses.*—Benefits payable to people who qualify in the future for social security benefits as dependent spouse<sup>s</sup> (includes surviving spouses) are reduced by the amount of any governmental (Federal, State, or local) retirement benefit payable to the spouse on the basis of such spouse's own employment for such a government that was not covered by OASDI.

(f) *Modification of retirement test.*—Under present law, social security beneficiaries who are under age 72 have their benefits reduced if their earnings exceed a certain amount which is adjusted annually to reflect changes in average wage levels. This amount is \$3,000 in 1977 and is estimated to automatically increase to \$3,240 in 1978 and to \$3,480 in 1979. The bill increases these levels to \$4,500 in 1978 and to \$6,000 in 1979. After 1979, the new \$6,000 level would increase automatically as wage levels rise, as under present law. (The 1978 increase would be applicable to the entire year, but any additional benefits resulting from the change would not become payable until after September 30, 1978.)

(g) *Increased benefits for certain widows.*—Social security benefits for individuals who continue working past age 65 are increased under present law by 1 percent for each year prior to age 72 that the worker did not receive his benefits because of the retirement test. Under present law this delayed retirement increment of 1 percent a year, which is added to the individual worker's benefit when he retires, ap-



plies only to the worker's own benefit. The committee bill would make the increment applicable to the benefit payable to the widow or widower of such an individual.

(h) *Elimination of certain dual taxation requirements.*—Effective in 1979, the committee bill will treat an individual who concurrently performs services for two or more related corporations (but is paid by only one of them) as if there were only one employing corporation. (Current law treats him as an employee of each corporation which can result in a total employer tax liability in excess of the maximum amount of annual earnings ordinarily subject to social security taxes.)

(i) *Elimination of retroactive payments of actuarially reduced benefits.*—Under present law, social security beneficiaries may receive benefits for up to 12 months before application. Under the committee bill, such benefits would not be payable if they are actuarially reduced.

(j) *Change in method of applying benefit increase to actuarially reduced benefits.*—Under present law, when a general benefit increase is applied to actuarially reduced benefits, the increase in benefits is reduced by a percentage that is less than the percentage initially applied when the benefits were awarded. Under the committee bill, the initial percentage reduction will be applied to later benefit increases.

The changes in the medium-range and long-range actuarial balances of the system from the levels under present law to those under the committee bill are shown in tables 10 and 11.

These long-range estimates are based on the assumption that average earnings will increase after 1982 at an annual rate of 5¼ percent, and that the CPI will increase at 4 percent per year.

It is estimated that the changes made by the bill would provide a sound actuarial position for the old-age, survivors, and disability insurance program, because the system would be in close actuarial balance (+0.06 percent of taxable payroll).

TABLE 10.—CHANGES IN ACTUARIAL BALANCE OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM OVER THE MEDIUM-RANGE PERIOD (1977-2001) EXPRESSED AS PERCENT OF TAXABLE PAYROLL, BY TYPE OF CHANGE, PRESENT LAW AND THE COMMITTEE BILL

[In percent]

Item	OASI	DI	Total
Medium-range actuarial balance under present law.....	-1.45	-0.89	-2.34
Effect of decoupling.....	+1.68	+55	+2.23
Effect of new (wage-indexed) benefit formula.....	-1.22	-.32	-1.54
Increase in wage base for employers.....	+33	+07	+40
Increase in earnings base for employees and self-employed persons.....	+09	+01	+10
Increase in self-employed tax rate..	+05	+01	+06
Government pension offset for spouses' benefits.....	+06	+0	+06
Increase in exempt amount in retirement test.....	-.16	-0	-.16
Change in method of applying general benefit increases to actuarially reduced benefits.....	+13	+0	+13
Delayed retirement increment for widows and widowers and employer tax relief for affiliated corporations.....	-0	-0	-0
Eliminating retroactive payments of actuarially reduced benefits....	+02	+0	+02
Revised tax schedule.....	+1.31	+.63	+1.94
Total effect of changes in bill...	+2.29	+.96	+3.24
Medium-range actuarial balance under bill.....	+.84	+.06	+.90

Note: Expenditures and taxable payroll are calculated under the intermediate set of assumptions (alternative II) which are described in the 1977 Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. These assumptions incorporate ultimate annual increases of 5¾ percent in average wages in covered employment and 4 percent in the Consumer Price Index, an ultimate unemployment rate of 5 percent, and an ultimate total fertility rate of 2.1 children per woman. Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

TABLE 11.—CHANGES IN ACTUARIAL BALANCE OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM OVER THE LONG-RANGE PERIOD (1977-2051) EXPRESSED AS PERCENT OF TAXABLE PAYROLL, BY TYPE OF CHANGE, PRESENT LAW, AND THE COMMITTEE BILL

[In percent]			
Item	OASI	DI	Total
Long-range actuarial balance under present law .....	-6.06	-2.14	-8.20
Effect of decoupling .....	+9.63	+2.32	+11.95
Effect of new (wage-indexed) benefit formula .....	-6.18	-1.31	-7.49
Increase in wage base for employers .....	+.22	+.05	+.27
Increase in earnings base for employees and self-employed persons .....	+.05	+0	+.05
Increase in self-employed tax rate ..	+.08	+.02	+.10
Government pension offset for spouses' benefits .....	+.05	+0	+.05
Increase in exempt amount in retirement test .....	-.17	-0	-.17
Changes in method of applying general benefit increase to actuarially reduced benefits .....	+.25	+0	+.25
Delayed retirement increment for widows and widowers and employer tax relief for affiliated corporations .....	-.01	-0	-.01
Eliminating retroactive payments of actuarially reduced benefits ....	+.01	+0	+.01
Revised tax schedule .....	+2.17	+1.08	+3.25
Total effect of changes in bill ...	+6.10	+2.16	+8.26
Long-range actuarial balance under bill .....	+.04	+.03	+.06

Note: Expenditures and taxable payroll are calculated under the intermediate set of assumptions (alternative II) which are described in the 1977 Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. These assumptions incorporate ultimate annual increases of  $5\frac{3}{4}$  percent in average wages in covered employment and 4 percent in the Consumer Price Index, an ultimate unemployment rate of 5 percent, and an ultimate total fertility rate of 2.1 children per woman. Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.



These long-range estimates are based on the assumption that average earnings will increase after 1982 at an annual rate of  $5\frac{3}{4}$  percent, and that the CPI will increase at 4 percent per year.

It is estimated that the changes made by the bill would provide a sound actuarial position for the old-age, survivors, and disability insurance program, because the system would be in close actuarial balance (+0.06 percent of taxable payroll).

## 2. INCOME AND OUTGO IN NEAR FUTURE FOR THE OASDI SYSTEM

Tables 12-14 show the progress of the OASI, DI, and combined OASDI trust funds under present law in the past and under the committee bill in the future.

TABLE 12.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND, UNDER THE COMMITTEE BILL, CALENDAR YEARS 1972-87

[Dollar amounts in billions]

Calendar year	Income	Disbursements	Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of disbursements during the coming year
1972 .....	\$40.1	\$38.5	\$1.5	\$35.3	88
1973 .....	48.3	47.2	1.2	36.5	75
1974 .....	54.7	53.4	1.3	37.8	68
1975 .....	59.6	60.4	-.8	37.0	63
1976 .....	66.3	67.9	-1.6	35.4	54
Estimated future experience:					
1977 .....	72.5	75.6	-3.1	32.3	47
1978 .....	78.5	84.1	-5.5	26.8	38
1979 .....	92.1	92.9	-.8	26.0	29
1980 .....	101.9	101.4	.5	26.5	26
1981 .....	115.2	109.7	5.4	31.9	24
1982 .....	124.3	118.1	6.2	38.1	27
1983 .....	133.3	126.9	6.4	44.5	30
1984 .....	142.4	136.5	5.9	50.4	33
1985 .....	158.8	146.7	12.1	62.5	34
1986 .....	170.6	157.6	13.0	75.5	40
1987 .....	182.2	169.1	13.1	88.5	45

TABLE 13.—OPERATIONS OF THE DISABILITY INSURANCE TRUST FUND UNDER THE COMMITTEE BILL, CALENDAR YEARS 1972-87

[Dollar amounts in billions]

Calendar year	Income	Disbursements	Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of disbursements during the coming year
1972.....	\$5.6	\$4.8	\$0.8	\$7.5	140
1973.....	6.4	6.0	.5	7.9	125
1974.....	7.4	7.2	.2	8.1	110
1975.....	8.0	8.8	-.8	7.4	92
1976.....	8.8	10.4	-1.6	5.7	71
Estimated future experience:					
1977.....	9.6	12.4	-2.4	3.3	48
1978.....	13.8	13.6	.2	3.5	24
1979.....	16.0	15.3	.7	4.2	23
1980.....	17.7	17.2	.5	4.7	24
1981.....	21.0	19.0	1.9	6.6	25
1982.....	22.8	21.0	1.8	8.4	31
1983.....	24.4	23.1	1.3	9.7	36
1984.....	26.1	25.4	.7	10.4	38
1985.....	32.0	28.0	4.0	14.4	37
1986.....	34.7	30.6	4.1	18.4	47
1987.....	37.1	33.5	3.6	22.1	55

TABLE 14.—OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND THE DISABILITY INSURANCE TRUST FUNDS, COMBINED, UNDER THE COMMITTEE BILL, CALENDAR YEARS 1972-87

[Dollar amounts in billions]

Calendar year	Income	Disbursements	Net increase in funds	Funds at end of year	Funds at beginning of year as a percentage of disbursements during the coming year
1972.....	\$45.6	\$43.3	\$2.3	\$42.8	93
1973.....	54.8	53.1	1.6	44.4	80
1974.....	62.1	60.6	1.5	45.9	73
1975.....	67.6	69.2	-1.5	44.3	66
1976.....	75.0	78.2	-3.2	41.1	57
Estimated future experience:					
1977.....	82.1	87.6	-5.5	35.6	47
1978.....	92.4	97.7	-5.4	30.2	36
1979.....	108.0	108.1	-1.1	30.1	28
1980.....	119.6	118.5	1.0	31.2	25
1981.....	136.1	128.8	7.4	38.5	24
1982.....	147.1	139.1	8.6	46.5	28
1983.....	157.7	150.0	7.7	54.2	31
1984.....	168.5	161.9	6.6	60.8	33
1985.....	190.7	174.7	16.1	76.9	35
1986.....	205.3	188.2	17.1	93.9	41
1987.....	219.3	202.6	16.7	110.0	46



## 3. LONG-RANGE OASDI COST ESTIMATES

Table 15 shows the long-range cost estimates of the OASDI system as modified by the committee bill.

TABLE 15.—ESTIMATED EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL UNDER THE COMMITTEE BILL, FOR SELECTED YEARS 1977-2055

[In percent]

Calendar year	Expenditures as percent of taxable payroll <sup>1</sup>			Combined employer-employee tax rate in bill	Difference
	Old-age and survivors insurance	Disability insurance	Total		
1977.....	9.39	1.50	10.89	9.90	-0.99
1978.....	9.39	1.53	10.92	10.10	-.82
1979.....	8.81	1.45	10.27	10.17	-.10
1980.....	8.74	1.48	10.22	10.17	-.05
1981.....	8.68	1.51	10.19	10.70	.51
1982.....	8.73	1.56	10.28	10.70	.42
1983.....	8.77	1.60	10.36	10.70	.34
1984.....	8.85	1.65	10.50	10.70	.20
1985.....	8.82	1.68	10.51	11.30	.79
1986.....	8.89	1.73	10.62	11.30	.68
1987.....	8.88	1.76	10.63	11.30	.67
1988.....	8.93	1.83	10.76	11.30	.54
1989.....	8.95	1.88	10.83	11.30	.57
1990.....	8.97	1.93	10.90	12.20	1.30
1991.....	8.99	1.98	10.97	12.20	1.23
1992.....	9.02	2.02	11.04	12.20	1.16
1993.....	9.05	2.07	11.12	12.20	1.08
1994.....	9.09	2.12	11.20	12.20	1.00
1995.....	9.12	2.17	11.29	13.40	2.11
1996.....	9.13	2.23	11.36	13.40	2.04
1997.....	9.15	2.29	11.43	13.40	1.97
1998.....	9.17	2.35	11.52	13.40	1.88
1999.....	9.19	2.41	11.60	13.40	1.80
2000.....	9.21	2.47	11.68	13.40	1.72
2001.....	9.23	2.53	11.76	14.60	2.84

See footnotes at end of table.

TABLE 15.—ESTIMATED EXPENDITURES OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL UNDER THE COMMITTEE BILL, FOR SELECTED YEARS 1977-2055—Continued

[In percent]

Calendar year	Expenditures as percent of taxable payroll <sup>1</sup>			Combined employer-employee tax rate in bill	Difference
	Old-age and survivors insurance	Disability insurance	Total		
2005.....	9.28	2.78	12.06	14.60	2.54
2010.....	9.86	3.02	12.88	14.60	1.72
2015.....	11.03	3.13	14.16	15.60	1.44
2020.....	12.57	3.15	15.72	15.60	-.12
2025.....	14.10	3.04	17.13	15.60	-1.53
2030.....	14.96	2.90	17.86	15.60	-2.26
2035.....	15.03	2.81	17.85	15.60	-2.25
2040.....	14.53	2.83	17.36	15.60	-1.76
2045.....	14.04	2.91	16.95	15.60	-1.35
2050.....	13.87	2.94	16.81	15.60	-1.21
2055.....	13.94	2.94	16.88	15.60	-1.28
25-yr averages:					
1977-2001....	9.01	1.91	10.92	11.83	.90
2002-26.....	11.18	3.00	14.18	15.24	1.06
2027-51.....	14.49	2.88	17.37	15.60	-1.77
75-yr average:					
1977-2051....	11.56	2.60	14.16	14.22	.06

<sup>1</sup> Expenditures and taxable payroll are calculated under the intermediate set of assumptions (alternative II) which are described in the 1977 Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. These assumptions incorporate ultimate annual increases of 5½ percent in average wages in covered employment and 4 percent in the Consumer Price Index, an ultimate unemployment rate of 5 percent, and an ultimate total fertility rate of 2.1 children per woman. Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

## Basic Assumptions for Cost Estimates for Old-Age, Survivors, and Disability Insurance System

### 1. GENERAL BASIS FOR LONG-RANGE COST ESTIMATES

The long-range estimates for the old-age, survivors, and disability insurance program presented in this report are based on the assumption that average earnings in covered employment will increase after 1982 at an annual rate of 5¼ percent. Similarly, the assumption has been made that the CPI will increase at an annual rate of 4 percent. Higher increases for both earnings and the CPI are assumed for the early years. These assumptions yield, over the long range, an implied increase in real earnings of 1¼ percent per year, which is based on the actual average experience of the last 25 years (estimated at about 1.7 percent per year, based on annual averages for the period 1956-76), although recent experience has been much lower (about 1.1 percent in the last 15 years and 0.5 percent in the last 10 years, based on annual averages).

The estimates reflect the effects, under present law and under the system as it would be modified by the committee bill of various changes assumed to occur as a result of the automatic-adjustment provisions. Table 16 summarizes those changes.

### 2. MEASUREMENT OF COSTS IN RELATION TO TAXABLE PAYROLL

Long-range costs included in this report are expressed as a percentage of taxable payroll. This measure is used because it is directly comparable to the combined employer-employee tax rate. Because of this characteristic the adequacy of any tax schedule can be readily determined and new tax schedules can be readily designed to meet the cost of the program.

It should be observed that the assumptions of constant annual increases in average earnings and in the CPI were not adopted because it was believed that these increases would remain constant in the future. These assumptions are intended to represent average increases over the long-range future, with the increases being higher in some years and lower in others.

The long-range cost estimates are based on assumptions that are intended to represent close to full employment (average unemployment is assumed at 5 percent of the labor force). The aggregate amount of earnings taxable in 1977 under the base of \$16,500 is estimated at about \$824 billion. Similarly it is estimated that \$917 billion of earnings will be taxable in 1978 under the scheduled \$17,700 earnings base. The latter amount of total earnings taxable is projected to increase in the future as the covered population grows and as the average taxable earnings increase due to adjustments in the earnings base as well as to increases in average earnings in covered employment.

The long-range cost estimates presented in this report were prepared for a 75-year period.



TABLE 16.—ASSUMED FUTURE CHANGES RESULTING FROM AUTOMATIC-ADJUSTMENT PROVISIONS  
UNDER PRESENT LAW AND UNDER THE COMMITTEE BILL

Calendar year	General benefit increase <sup>1</sup> (percent)	Taxable earnings base			Annual exempt amount under the retirement test	
		Present law <sup>2</sup>	Committee bill		Present law	Committee bill
			Employee and self-employed	Employer		
1977.....	5.9	\$16,500	\$16,500	\$16,500	\$3,000	\$3,000
1978.....	5.5	17,700	17,700	17,700	3,240	4,500
1979.....	5.2	18,900	19,500	50,000	3,480	6,000
1980.....	5.0	20,400	21,000	50,000	3,720	6,480
1981.....	4.2	21,900	23,100	50,000	3,960	6,960
1982.....	4.0	23,400	24,600	50,000	4,200	7,440
1983.....	4.0	24,900	26,700	50,000	4,440	7,920
1984.....	4.0	26,400	28,200	50,000	4,680	8,400
1985.....	4.0	<sup>3</sup> 27,900	<sup>3</sup> 30,300	<sup>4</sup> 75,000	<sup>3</sup> 4,920	<sup>3</sup> 8,880

<sup>1</sup> Under present law, applies to both persons eligible for benefits at the time of the benefit increase and to persons becoming eligible for benefits thereafter. Under the committee bill, applies only to persons eligible for benefits as of the time of the benefit increase, for years after 1978. Amounts are the same under present law and under the committee bill.

<sup>2</sup> Amounts are the same for employees and self-employed persons.

<sup>3</sup> Increases thereafter according to increases in average wages.

<sup>4</sup> Remains at \$75,000 thereafter until the base for employees and self-employed persons equals or exceeds \$75,000, at which time the employer base is increased, if necessary, to equal the base for employees and self-employed persons, with automatic increases thereafter.

## Actuarial Cost Estimates for the Hospital Insurance Program

### 1. EFFECT OF THE BILL ON THE ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM

The only provisions in the committee bill that affect the actuarial balance of the Hospital Insurance program are the change in the earnings base and the modification of the tax schedule, as outlined in the preceding sections. The financing changes alter slightly the actuarial balance of the HI program, from a deficit of -1.16 percent of taxable payroll under present law to a deficit of -1.22 percent under the bill, as shown in table 19. Under both present law and the bill, the Hospital Insurance fund would become exhausted in 1987. The tax schedule under the committee bill as compared with present law is shown in table 17.

**TABLE 17.—CONTRIBUTION RATES FOR HOSPITAL INSURANCE UNDER COMMITTEE BILL, AS COMPARED WITH THOSE UNDER PRESENT LAW**

[In percent]

Calendar year	Employer, employee, and self-employed rate, each	
	Present law	Bill
1977.....	0.90	0.90
1978.....	1.10	1.00
1979-80.....	1.10	1.05
1981-84.....	1.35	1.25
1985.....	1.35	1.35
1986 and after.....	1.50	1.40

### 2. SHORT-RANGE ESTIMATES OF THE INCOME AND OUTGO OF THE HOSPITAL INSURANCE PROGRAM

Estimates of the cash income and outgo and of the resulting balances in the Hospital Insurance Trust Fund are shown in table 18 for the past as well as for the next 10 calendar years.

TABLE 18.—PROGRESS OF THE SOCIAL SECURITY HOSPITAL INSURANCE TRUST FUND UNDER COMMITTEE BILL, CALENDAR YEARS 1972-87

[In billions]

Calendar year	Income	Disbursements	Net increase in fund	Fund at end of year	Fund at beginning of year as a percentage of outgo during year
1972.....	\$6.4	\$6.5	—\$0.1	\$2.9	47
1973.....	10.8	7.3	3.5	6.5	40
1974.....	12.0	9.4	2.7	9.1	69
1975.....	13.0	11.6	1.4	10.5	79
1976.....	13.8	13.7	.1	10.6	77
Estimated future experience:					
1977.....	16.1	16.2	— .1	10.5	66
1978.....	19.2	19.0	.2	10.7	55
1979.....	23.4	22.2	1.2	11.9	48
1980.....	25.9	25.7	.1	12.0	46
1981.....	32.7	29.7	3.0	15.0	40
1982.....	35.4	33.9	1.5	16.5	44
1983.....	37.8	38.5	— .8	15.8	43
1984.....	40.0	43.7	—3.7	12.1	36
1985.....	45.6	49.1	—3.5	8.6	25
1986.....	50.2	54.9	—4.7	3.8	16
1987.....	53.0	61.2	—8.2	—4.3	6

## 3. LONG-RANGE COST ESTIMATES FOR THE HOSPITAL INSURANCE PROGRAM

The adequacy of a schedule of contribution rates to support the hospital insurance system is measured by comparing on a year-to-year basis the tax rates with the corresponding total costs of the program, expressed as percentages of taxable payroll. The total cost of the program in any year essentially is the combined employer-employee contribution rate that will be sufficient to (a) provide the benefit payments and administrative expenses for the year for insured beneficiaries and (b) build the trust fund to the level of a year's disbursements and maintain it at that level. If the tax rate and the total cost (expressed as a percentage of taxable payroll) are exactly equal in each year of the



25-year projection period and all projection assumptions are realized, tax revenues along with interest income will be sufficient to provide for benefits and administrative expenses for insured persons and to build the trust fund gradually to the level of a year's outgo by the end of the period. Financing schedules generally are designed with rate changes occurring only at intervals of several years, rather than with continual year-by-year increases to match exactly with projected cost increases. To the extent that small differences between the yearly costs of the program and the corresponding tax rates occur for short periods of time and are offset by subsequent differences in the reverse direction, adequate financing will have been provided.

Table 19 shows the long-range cost estimates of the HI system as modified by the bill and as compared with the taxes provided. As indicated in this table, the HI tax rates scheduled in the bill would be less than the total costs in nearly every year of the 25-year projection period. Under the proposed financing schedule, the assets in the trust fund as a percentage of a year's outgo decline from a level of 77 percent at the beginning of 1976 to a level of slightly over 40 percent during the early 1980's. The assets in the trust fund decline very rapidly thereafter, with the fund projected to be exhausted completely in 1987. This is true under present law and under the committee bill.

**TABLE 19.—CHANGES IN ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE SYSTEM EXPRESSED AS PERCENT OF TAXABLE PAYROLL, BY TYPE OF CHANGE, PRESENT LAW AND THE COMMITTEE BILL**

Item	Percent
Actuarial balance under present law.....	-1.16
Increase in wage base for employers.....	+0.07
Increase in earnings base for employees and self-employed persons.....	+0.05
Revised tax schedule.....	-0.18
Total effect of changes in bill.....	-0.06
Actuarial balance under bill.....	-1.22

Note: Expenditures and taxable payroll are calculated under the intermediate set of assumptions (alternative II) which is described in the 1977 Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund. These assumptions incorporate ultimate annual increases of 5¾ percent in average wages in covered employment and 4 percent in the Consumer Price Index, an ultimate unemployment rate of 5 percent, and an ultimate total fertility rate of 2.1 children per woman. Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

TABLE 20.—ESTIMATED COST OF HOSPITAL INSURANCE SYSTEM AS PERCENT OF TAXABLE PAYROLL UNDER THE COMMITTEE BILL, FOR CALENDAR YEARS 1977-2001

[In percent]

Calendar year	Expenditures under the program <sup>1</sup>	Trust fund building and maintenance <sup>2</sup>	Total cost of the program	Tax rate in bill <sup>3</sup>	Difference
1977.....	1.99	0.15	2.14	1.80	-0.34
1978.....	2.11	.15	2.26	2.00	-.26
1979.....	2.10	.14	2.24	2.10	-.14
1980.....	2.22	.13	2.35	2.10	-.25
1981.....	2.36	.12	2.48	2.50	.02
1982.....	2.52	.12	2.64	2.50	-.14
1983.....	2.68	.12	2.80	2.50	-.30
1984.....	2.86	.11	2.97	2.50	-.47
1985.....	2.98	.11	3.09	2.70	-.39
1986.....	3.13	.11	3.24	2.80	-.44
1987.....	3.29	.11	3.40	2.80	-.60
1988.....	3.47	.11	3.58	2.80	-.78
1989.....	3.67	.10	3.77	2.80	-.97
1990.....	3.84	.10	3.94	2.80	-1.14
1991.....	4.02	.10	4.12	2.80	-1.32
1992.....	4.20	.10	4.30	2.80	-1.50
1993.....	4.38	.10	4.48	2.80	-1.68
1994.....	4.57	.10	4.67	2.80	-1.87
1995.....	4.75	.09	4.84	2.80	-2.04
1996.....	4.92	.09	5.01	2.80	-2.21
1997.....	5.09	.09	5.18	2.80	-2.38
1998.....	5.28	.09	5.37	2.80	-2.57
1999.....	5.45	.09	5.54	2.80	-2.74
2000.....	5.63	.09	5.72	2.80	-2.92
2001.....	5.80	.09	5.89	2.80	-3.09
Average <sup>4</sup> ....	3.73	.11	3.84	2.62	-1.22

<sup>1</sup> Ratio of benefit payments and administrative expenses for insured beneficiaries to taxable payroll. Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages."

<sup>2</sup> Allowance for building the trust fund balance to the level of a year's outgo and maintaining it at that level, after accounting for the offsetting effects of interest earnings.

<sup>3</sup> Rate for employers and employees, combined.

<sup>4</sup> Average for the 25-yr period 1977-2001.

### III. REGULATORY IMPACT OF THE BILL

In compliance with paragraph 5 of rule XXIX of the Standing Rules of the Senate, the following statements are made concerning the regulatory impact of the bill.

The major purpose of the bill, as reported, is to improve the financing of the social security program. While it will result in significant economic impact on nearly all employers and employees, the regulatory impact is expected to be minimal. What is involved is a higher tax liability payable through the same mechanisms as under existing law. The bill, as reported, does, however, include a number of provisions related to the social security program benefit structure in addition to the financing provisions. Some of these, such as the revision of the basic benefit formula, would have regulatory implications primarily for the agency personnel who are responsible for calculating benefit liability. Other provisions, however, do have some relatively slight regulatory impact. A provision offsetting dependent spouses benefits against public retirement pensions based on their own earnings would require affected individuals to provide information about their public pensions which is not required under present law. Some additional paperwork would be required in verifying these pension amounts with the agencies providing them.

A provision modifying the social security retirement test would result in a lessening of regulatory impact in that many individuals who are now required to file annual earnings reports would no longer have to do so.

The bill also contains sections related to welfare programs. The section dealing with the earned income disregard provision would modify and in many cases reduce the allowable deductions under the program. This would involve regulations both implementing the statutory provisions and to some extent interpreting them (for example, the bill provides that child care expenses would be allowed as a deduction only to the extent that the Department specifies as reasonable in regulations). The regulations would have an impact on those recipients who are employed.

The committee does not believe that the other provisions of the bill would have any significant regulatory consequences.

The numbers of persons affected by each of the provisions of the bill, where available, are provided elsewhere in this report.

### IV. VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with section 133 of the Legislative Reorganization Act of 1946, the following statement is made relative to the vote by the committee to report the bill.

The bill was ordered reported by a voice vote.



## V. BUDGETARY IMPACT OF THE BILL

In compliance with section 252(a) of the Legislative Reorganization Act of 1970 and sections 308 and 403 of the Congressional Budget Act, the following statements are made relative to the costs and budgetary impact of the bill.

Pursuant to section 302(d) of the Congressional Budget Act of 1974, the Committee on Finance submitted a report (Senate Report 95-457) to the Senate on September 29, 1977, subdividing among programs the allocations of budget authority and outlays designated for the committee in the conference report on the second concurrent resolution on the budget for fiscal year 1978.

The Finance Committee allocations with respect to the programs affected by this bill are reproduced below:

### FINANCE COMMITTEE BUDGET ALLOCATIONS FOR FISCAL YEAR 1978

[In billions of dollars]

Program	Budget authority			Outlays		
	Control- lable amounts	All other amounts	Total	Control- lable amounts	All other amounts	Total
Social security.....		89.5	89.5	-0.4	92.6	92.2
Assistance programs; AFDC, SSI, etc.....	-0.3	11.6	11.2	-.3	12.0	11.7
Fiscal relief for State and local welfare costs.....	+5		.5	+5		.5

The amendments made by the bill are consistent with the totals shown above for the program of social security. The fiscal relief provision in the bill provides for spending which is less by \$0.1 billion than the amount allowed for in the allocation report and the AFDC provisions in the bill have savings of \$0.2 billion as compared with savings of \$0.3 billion assumed in the allocation report. The committee is simultaneously reporting the bill H.R. 7200 which has additional savings in assistance programs. The net impact of the two bills would be well within the amounts assumed in the allocation report issued by the committee.

The committee consulted with the Congressional Budget Office during the course of deliberations on the bill. An estimate of the budgetary impact of the bill prepared by CBO was received by the commit-

tee on November 1, 1977, and this estimate is printed at the end of this section of the report. The committee, however, elects to adopt as its estimates for titles I and II of the bill the estimates prepared by the Office of the Actuary of the Social Security Administration except as noted. The tables below show the estimates for the next 5 fiscal years of the cost and savings and revenue effects of the bill as reported.

The committee notes that the estimated amount of benefit payments in the first table will affect outlays but not budget authority. The revenue estimates shown in the second table will affect budget authority as well as revenues (an increase in revenues results in a corresponding increase in budget authority because permanent law appropriates to the social security trust funds the amount which is collected as social security taxes). The bill has no revenue impact in fiscal year 1978. The committee is aware that the increase in revenues under the social security program could be offset for unified budget purposes by some decrease in general revenues because of the deductibility of employer taxes. However, economists have widely varying opinions as to the extent to which employers absorb such increases in the short run or pass them through to consumers. Accordingly, the committee has not attempted to estimate this secondary impact of the bill.

TABLE 21.—INCREASED REVENUES TO SOCIAL SECURITY TRUST FUNDS UNDER THE COMMITTEE BILL

[In millions]

Fund and fiscal year	Increased base for employers	Increased base for employees and self- employed	Reallocation between funds	Increased self- employed rate	Increased tax rates	Total
<b>OASDI:</b>						
1978.....			\$1,245		\$1,202	\$1,245
1979.....		\$147	1,232			4,541
1980.....	6,022	515	1,114		1,841	9,492
1981.....	6,337	675	2,069	\$79	5,716	14,876
1982.....	6,525	1,001	2,613	399	7,912	18,450
1983.....	6,681	1,143	2,798	428	8,475	19,525
<b>HI:</b>						
1978.....			-1,245			-1,245
1979.....		32	-1,232			-764
1980.....	436	110	-1,114			334
1981.....	1,338	160	-2,069			-391
1982.....	1,518	262	-2,613			-572
1983.....	1,779	300	-2,798			-676
<b>OASDHI:</b>						
1978.....						
1979.....		179			1,202	3,777
1980.....	2,396	625			1,841	9,826
1981.....	7,360	835		79	5,716	14,485
1982.....	7,855	1,263		399	7,912	17,868
1983.....	8,304	1,443		428	8,475	18,849



TABLE 22.—ESTIMATED AMOUNT OF ADDITIONAL OASDI BENEFIT PAYMENTS RESULTING FROM THE COMMITTEE BILL, FISCAL YEARS 1978-83

[In millions]

	1978	1979	1980	1981	1982	1983
Increases in retirement test exempt amount.....		\$2,293	\$2,298	\$2,474	\$2,577	\$2,672
Increase in benefits of surviving spouses, resulting from deceased worker's delayed retirement credits.....	\$2	4 -19	4 -133	7 -385	9 -763	12 -1,335
Decoupling based on wage-indexed earnings.....						
Offset to benefits of spouses receiving public retirement pensions.....	-136	-310	-496	-696	-944	-1,202
Limit increases in actuarially reduced benefits.....	-45	-230	-440	-684	-916	-1,086
Eliminate retroactive payments of actuarially reduced benefits.....	-292	-534 ( <sup>2</sup> )	-546 3	-558 10	-563 23	-568 47
Increase in contribution and benefit base.....						
Total amount of additional benefit payments..	-471	1,204	690	168	-577	-1,460

<sup>1</sup> The committee has adopted the administration's estimate of the savings from the administration proposal regarding benefits for dependent spouses as the estimated savings from the related com-

mittee amendment offsetting against such pensions.

<sup>2</sup> Less than \$500,000.

government-employee pensions

TABLE 23.—COST OF PAYMENT FOR NONPROFIT ORGANIZATIONS AND GOVERNMENTAL ENTITIES <sup>1</sup>

Fiscal year	Billion
1978 .....	\$0
1979 .....	83
1980 .....	312
1981 .....	319
1982 .....	314

<sup>1</sup> Assumes appropriations action.

TABLE 24.—ESTIMATED ADDITIONAL AMOUNT OF OASDI BENEFIT PAYMENTS IN CALENDAR YEARS 1978-83

[In millions]

	Additional benefit payments by calendar year					
	1978	1979	1980	1981	1982	1983
Increases in retirement test exempt amount.....	\$782	\$1,991	\$2,378	\$2,486	\$2,597	\$2,677
Increase in benefits of surviving spouses, resulting from deceased worker's delayed retirement credits.....	3	4 -31	5 -189	7 -461	10 -888	13 -1,509
Decoupling based on wage-indexed earnings.....						
Offset to benefits of spouses receiving public retirement pensions.....	-190	-362	-545	-767	-1,008	-1,289
Limit increases in actuarially reduced benefits.....	-90	-280	-500	-751	-948	-1,157
Eliminate retroactive payments of actuarially reduced benefits.....	-424	-536	-550	-559	-565	-569
Increase in contribution and benefit base.....		( <sup>2</sup> )	4	11	29	54
Total amount of additional benefit payments....	81	786	603	-34	-773	-1,780

<sup>1</sup> The committee has adopted the administration's estimate of the savings from the administration proposal regarding benefits for dependent spouses as the estimated savings from the related com-

mittee amendment against such pensions.

<sup>2</sup> Less than \$500,000.

mittee amendment offsetting government-employee pensions



TABLE 25.—COMMITTEE ESTIMATES OF THE COST IMPACT OF WELFARE PROVISIONS OF THE BILL

[In millions of dollars]

Provision	Cost impact in fiscal year—				
	1978	1979	1980	1981	1982
Fiscal relief.....	+400				
Incentive payments for low error rates...	(1)	(1)	(1)	(1)	(1)
Access to wage information.....	(1)	(1)	(1)	(1)	(1)
State demonstration project authority....	(1)	(1)	(1)	(1)	(1)
Earned income disregard <sup>2</sup> .....	-175	-230	-241	-261	-276

<sup>1</sup> No precise estimate of the cost of implementing these provisions is available (except that the demonstration project authority involves no new Federal funding). However, the committee estimates that the net impact of these provisions will be a reduction in welfare costs more than offsetting any implementation costs.

<sup>2</sup> Based on Administration estimates adjusted for less than full year impact in 1978.

## CONGRESSIONAL BUDGET OFFICE ESTIMATE

The estimate received by the committee from the Congressional Budget Office is reprinted below:

CONGRESSIONAL BUDGET OFFICE,  
U.S. CONGRESS,  
Washington, D.C., November 1, 1977.

Hon. RUSSELL LONG,  
Chairman, Committee on Finance,  
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for H.R. 5322 which includes the Social Security Amendments of 1977.

Should the Committee so desire, we would be pleased to provide further details on the attached cost estimate.

Sincerely,

ALICE M. RIVIN, *Director.*

CONGRESSIONAL BUDGET OFFICE

COST ESTIMATE

NOVEMBER 1, 1977.

1. Bill Number: H.R. 5322.

2. Bill Title: Act to provide duty free treatment for Istle (Provisions related to social security and welfare).

3. Bill Status: Reported by the Senate Committee on Finance, November 1, 1977.

4. Bill Purpose: The primary purposes of this bill are (1) to strengthen the financing of the social security system; (2) to reduce the effect of wage and price fluctuation on the system's benefit structure; (3) to allow higher earnings for social security recipients; (4) to eliminate certain pension related and windfall benefits; (5) to provide fiscal relief to states and to make certain changes in the program of Aid to Families with Dependent Children.

5. Cost Estimate: Title I.—Social security provisions.

#### ESTIMATED CHANGE IN OASDHI REVENUES, TRUST FUND BASIS, FISCAL YEARS <sup>1</sup>

[In billions of dollars]

	1978	1979	1980	1981	1982	1983
OASDI.....	1.3	5.0	10.0	15.8	20.3	21.6
HI.....	-1.3	-.6	.4	-.2	-.4	.5
OASDHI.....	0	4.4	10.4	15.6	19.9	22.1

#### ESTIMATED CHANGE IN BUDGET AUTHORITY FOR OASDHI, FISCAL YEARS <sup>1</sup>

OASDI.....	1.5	5.3	10.7	17.7	27.4	34.2
HI.....	-1.4	-.7	-.6	-.4	-.6	.7
OASDHI.....	.1	4.6	10.1	17.3	26.8	34.9

<sup>1</sup> Estimates based on Congressional Budget Office macroeconomic assumptions.

#### *Estimated change in OASDI outlays, fiscal years <sup>1</sup>*

OASDI, total:	<i>Billions</i>
1978.....	-\$0.5
1979.....	.2
1980.....	-.1
1981.....	-.5
1982.....	-1.1
1983.....	-1.9

<sup>1</sup> Estimates based on Congressional Budget Office macroeconomic assumptions.

*Title II.*—Miscellaneous (negligible cost).

*Title III.*—Certain provisions relating to fiscal relief and welfare benefits.

ESTIMATED CHANGE IN OUTLAYS, FISCAL YEARS <sup>1</sup>

[In millions of dollars]

	1978	1979	1980	1981	1982
Fiscal relief for States with respect to AFDC programs...	400.0	0	0	0	0
Improved Administration establishment of quality control system for the AFDC programs.....	-.6	-.6	-.7	-.7	-.8
Access to wage information.....	0	0	0	0	0
State demonstration projects.....	0	0	0	0	0
Earned income disregard.....	-175.0	-230.0	-241.0	-261.0	-276.0
Subtotal title III..	224.4	-230.6	-241.7	-261.7	-276.8

<sup>1</sup> Estimates based on Congressional Budget Office macroeconomic assumptions.

6. Basis for Estimates (major components).

*Title I.*—Provisions Relating to the Old-Age, Survivors, Disability and Health Insurance Programs.

## A. REVENUE ESTIMATES

The table in Part 5 shows the differences in revenues between current law and Sections 101, 102, and 103 of the Finance Committee proposal. Section 101 raises the amount of wages upon which the employer pays social security taxes to \$50,000 effective in calendar year 1979. Section 102 raises this base for employees to the sum of what it would be under current law plus increments of \$600 each in calendar years 1979, 1981, 1983 and 1985.

Section 103 advances the tax rates for employers and employees beginning in calendar year 1979. There is also a realignment of rates from the hospital insurance portion of the program to the old age, survivors and disability portion. In addition, the historical ratio of self-employed rates to wage earners rates is restored to 1.5.

Budget authority for OASDI under the bill would increase by approximately the same amount as receipts in fiscal year 1978, and by greater amounts in subsequent years because of additional interest generated by the larger trust fund balances. Budget authority for the HI account falls because of reduced revenues and reduced interest.



## B. CHANGES AFFECTING OUTLAYS

The table below summarizes the major provisions affecting OASDI outlays:

[In billions of dollars]

	Fiscal years—					
	1978	1979	1980	1981	1982	1983
Decoupling.....		-0.02	-0.13	-0.39	-0.76	-1.34
Raise exempt amount in earnings test.....		1.20	1.39	1.51	1.63	1.77
Allow widows to collect increased benefits of husband's delayed retirement..	( <sup>1</sup> )	( <sup>1</sup> )	.01	.01	.01	.01
Pension offset to spouse benefit.....	-0.17	-.27	-.41	-.43	-.53	-.64
Limit windfall increases for early retirement.....	-.05	-.23	-.45	-.68	-.91	-1.17
Limit on retroactive benefits..	-.29	-.53	-.55	-.56	-.56	-.57
Total.....	-.51	.15	-.14	-.54	-1.12	-1.94

<sup>1</sup> Less than \$5,000,000.

*Section 104.*—Stabilization of replacement rates in the old-age, survivors, and disability insurance programs.

This provision changes the procedure for calculating primary insurance amounts for persons becoming eligible for old-age, survivor or disability benefits, starting January 1, 1979.

The new system is "decoupled" in that primary insurance amounts (PIA's) for new beneficiaries will be determined by a different procedure than will be used to index benefits of existing beneficiaries. For the latter group, benefits will in effect be subject to the same automatic adjustments for changes in the Consumer Price Index as under current law.

Under the new procedure the PIA for new beneficiary awards would be calculated as: 92 percent of the first \$180 of average indexed monthly earnings (AIME), 33 percent of the next \$895 of AIME and 15 percent of AIME over \$1,075. The "bend points" in the formula are to be adjusted (i.e., indexed) each year for changes in average wages. As indicated in the bill the adjustments would be based on changes in "the average of the wages (as so defined) of all employees as reported to the Secretary of the Treasury for the calendar year 1977." The precise construction of the average of the total wages is not specified by the bill, but is to be defined in regulations of the Secretary of Health, Education, and Welfare.

Because of the dependence on "wage indexing" in the new procedure, it is difficult to estimate the effects on costs of the new decoupled formula without knowing how "the average of the total wages" would be measured. One interpretation would be that an actual wage index would be constructed in a manner analogous to that of the Consumer Price Index. Such an index would be adjusted for changes in the experience and skill of the work force and would be unaffected by

changes in hours and weeks worked per worker. Another interpretation of the bill would be that total wages would be the sum of wages subject to withholding, as reported to the Internal Revenue Service, and divided by the number of individuals reported on the withholding statements. In this case the change in average wages could be quite unpredictable and would be affected by factors such as changes in hours and weeks worked per individual and by changes in the rate of job turnover (since the number of different employees each wage earner works for would affect the total number of workers as reported by employers on their W-2 forms).

The actuaries of the Social Security Administration have made the above estimates of the effect of decoupling (including the changes in the minimum benefit and the delayed retirement increment). The actuaries' estimates assume that for purposes of implementing the decoupling proposal "average earnings" would increase at a rate consistent with that shown in the 1977 trustees' report. The new benefit formula yields a saving over current law because under the trustees' assumptions of future inflation, the relation between benefits and past earnings would rise faster than under the provisions of the bill.

*Section 121.—Change in retirement test.*

This section would raise the amount a retiree may earn without losing benefits to \$4,500 (\$375 per month) in calendar year 1978 and \$6,000 (\$500 per month) in 1979, with subsequent increases indexed to increases in annual earnings. Under current law, the earnings test is scheduled to be \$3,240 and \$3,480 in 1978 and 1979, respectively.

For this estimate, 1973 and 1975 actual earnings and benefit distributions were used, projected forward using the current CBO economic assumptions. It is assumed that the relationship between lifetime earnings and earnings in retirement remain the same over time.

These estimates are presented in two parts. The first refers to those individuals already on the social security rolls but receiving reduced benefits. (Persons 65 years and over receiving medicare but losing all retirement benefits are included.) This group could continue to earn the same amounts and receive higher benefits under the new provision. Approximately half of the total cost for this section can be attributed to this group of retirees. (The fiscal year 1979 figures include that part of the calendar year 1978 cost paid retroactively in fiscal year 1979.)

The second group of individuals to be affected are those who are not currently retired but may be induced to file for OASI benefits under this provision of the bill. These people had no reason to file before, since they would have lost all or most of their benefits under the current law earnings test. It is assumed almost all of the working 65-71 year olds have filed for social security for the medicare benefit, even though they might lose all other benefits because of earnings. Therefore, this second group consists of persons aged 62 to 64 years, who are not entitled to medicare but are induced to file for benefits at the reduced benefit for early retirees as a result of the change in the earnings test.

For this second group of individuals, three possible paths of increases in beneficiaries were estimated based on three types of assumptions. The final estimates use the median path. The median path projects 195,000 additional 62-64 year olds (and dependents) would have to be paid benefits for the first time when they sign up.

The following tables summarize the relationships. Table Y shows how the median path would change the percentage of eligibles who are retired (for men) versus the historical flow. There has been a steady 2-3 percent annual increase of this age group onto the rolls, even with major changes in the earnings test, such as in 1972-73. The median path predicts an additional 2-3 percent increase (for men) onto the rolls when the law becomes effective. The high and low paths assume higher or lower increases in this rate of increase. Equivalent paths have also been calculated for women.

TABLE X.—COST TO CHANGE IN EARNINGS TEST  
UNDER THREE ALTERNATIVES

[By fiscal years; in billions of dollars]

	1979	1980	1981	1982	1983
Total cost, 62 to 71-year-olds: <sup>1</sup>					
Median path.....	1.20	1.39	1.51	1.63	1.77
High path.....	1.49	1.68	1.82	1.97	2.13
Low path.....	.96	1.16	1.26	1.36	1.47
Cost for 62 to 64-year-olds:					
Already filed.....	.38	.48	.51	.56	.60
Induced to file:					
Median path.....	.43	.43	.47	.52	.57
High path.....	.73	.72	.79	.86	.92
Low path.....	.19	.20	.22	.24	.26
Total cost, 65 to 71-year-olds..	.38	.48	.52	.56	.60

<sup>1</sup> Includes retroactive to Jan. 1, 1978, for fiscal year 1979.

TABLE Y.—MEN 62-64, MEDIAN PATH GROWTH ONTO SOCIAL  
SECURITY ROLES

Calendar year	Eligible to retire (1977-83 esti- mated)	Actual number retired (1977-83 esti- mated)	Percent of eligible who are retired— old law	Total addi- tional benefi- ciaries under new law	Total under new law	Percent of eligible who are retired under new law
1972.....	2,040	635	31.13			
1973.....	2,053	690	33.61			
1974.....	2,077	753	36.28			
1975.....	2,104	787	37.41			
1976.....	2,108	849	40.28			
1977.....	2,122	897	42.27			
1978.....	2,136	948	44.38	60	1,008	47.19
1979.....	2,150	1,002	46.60	124	1,126	52.37
1980.....	2,165	1,059	48.91	128	1,187	54.83
1981.....	2,179	1,120	51.40	132	1,252	57.46
1982.....	2,194	1,183	53.92	136	1,319	60.18
1983.....	2,209	1,250	56.59	140	1,390	62.92



*Section 123.—Pension offset to dependents' benefits.*

Under this provision, social security benefits to spouses or surviving spouses would be reduced by the amount of any federal, state or local provision payable to the spouse. The provision would apply to all those filing for spouse benefits after October 31, 1977. Those husbands and widowers, therefore, who had newly become eligible for benefits as a result of the Goldfarb decision would lose their eligibility for these benefits if they had not filed before that time and if they had a sufficiently large governmental pension.

As shown in the summary table, CBO estimates that the pension offset provision would save approximately \$166 million in fiscal year 1978. As of August, 1977 about 31,000 husbands and widowers had applied for benefits as a result of the Goldfarb decision. It was estimated that another 10,000 would file before November 1, 1977. That would leave some 110,000 who would have been eligible under the Goldfarb decision but had not filed by November, and an additional 12,000 men estimated to become newly eligible. Assuming that benefits for these husbands and widowers would average \$1,215 for the months remaining in fiscal 1978, gives an estimate of \$148 million in savings for husbands and widowers for the year, as a result of the provision. To this is added an estimate of 10,000 wives and widows with governmental pensions who would receive reduced (or no) social security benefits as a result of the provision, leading to savings of \$18 million in fiscal 1978. Estimates for years after 1979 were made by projecting the group forward with the use of current mortality data and by adding in those estimated to become newly eligible in future years. Benefits were increased based on CBO's current macroeconomic assumptions.

These estimates are based on very limited data on the number of men and women estimated to receive state and local government pensions and civil service pensions and on a more detailed study of the collection of social security benefits by persons with civil service pensions.

*Title III.—*

*Section 301.—Fiscal relief for States with respect to AFDC programs*

This section would provide for \$400 million in fiscal relief to states shortly after October 1, 1977. The allocation of the funds to states would be reckoned such that each state's proportion of the \$400 million is an average of its proportion of AFDC costs for December 1976 and a proportion based on the revenue sharing formula.

The cost of this provision for fiscal year 1978 is simply the \$400 million in payments to states made shortly after October 1, 1977.

Fiscal year:	Millions
1978.....	\$400
1979.....	0
1980.....	0
1981.....	0
1982.....	0

*Section 302.—Improved Administration establishment of quality control system for the aid to families with dependent children programs.*

As an incentive to states to reduce errors, this provision would establish a system of monetary rewards for states which reduce their calculated error rates below 4 percent (the further below 4 percent, the greater the reward).

Providing a financial reward for quality control would result in a cost, but this would be offset by the saving which resulted from reduced state overpayments. At this time, very few states, and only two major AFDC states, are within a practical range of reducing their error rate below the 4 percent base level anytime in the near future. Coupled with the fact that the provision provides a relatively small monetary incentive to states, CBO estimates that no major costs or savings will result from this provision.

Fiscal year:	Millions
1978.....	-\$0.6
1979.....	-.6
1980.....	-.7
1981.....	-.7
1982.....	-.8

*Section 303.—Access to wage information.*

This provision would make available to states wage information contained in the records of the Social Security Administration and unemployment compensation agencies. Though there would be both costs and potential savings, the magnitude of neither is known.

Costs would be incurred for the administrative expense of processing the records. Savings would be incurred if matching the records uncovered illegitimate payments. Savings are particularly illusive because the information from SSA records could be as old as eighteen months so that the data may not be timely enough to be useful to the states.

*Section 304.—Earned income disregard.*

This provision would do four things to the formula for calculating the amount of income subtracted from the monthly AFDC payment: (1) It would change the way child care expenses are handled. Currently all child care expenses are disregarded in calculating the AFDC benefit. Under this provision income used to calculate the disregard would be reckoned net of child care expenses; (2) It would raise the standard income disregard from \$30 to \$60 per month for full time workers (part-time workers would remain at \$30); (3) The formula for the disregarded proportion of income (net of child care expenses) over \$60 (\$30 for part-time workers) would be calculated as one-third of net income between \$60 and \$360 per month and one-fifth of net income over \$360 per month; and (4) It would eliminate work expenses as a disregard.

Changes 1 and 3 would have the effect of lowering the proportion of child care expenses which would be disregarded from the full amount to about two-thirds of these expenses.

The overall effect of this provision would be to sharply reduce the share of income working AFDC recipients could keep—from an estimated 71 percent to 53 percent. This effect occurs primarily because of the elimination of the work expense disregard. CBO estimates that

the lowered incentive for persons to work and collect AFDC payments at the same time would result in as many as 100,000 fewer people who work while on AFDC out of approximately 500,000 who currently work while collecting AFDC. This change in the composition of workers on AFDC would be the result of three things: (1) Some would drop off AFDC because their income would be too high for them to qualify for AFDC payments under the new provision; (2) Some would curtail working or quit work entirely because working would no longer pay enough to be financially advantageous; and (3) Some would not go on AFDC because the AFDC-work combination would become less attractive. There are thus mixed effects on AFDC costs resulting from this provision.

*Section 305.*—State demonstration projects.

This provision would allow States to use what would have been their Federal share of AFDC payments to help pay AFDC recipients who work in public service demonstration projects (on a voluntary basis) instead of collecting AFDC. Additional costs for salaries over and above the AFDC amount would be covered by State revenue sharing funds. It is the legislative intent that no additional State administrative costs will be incurred. Therefore, it is assumed that there will be no significant increase in Federal costs as a result of this provision.

Eliminating the work expense disregard and lowering the proportion of child care costs disregarded would result in lower AFDC costs. However, raising the standard disregard and the fact that some people will choose to work less and collect more AFDC would partially offset the cost saving. The indirect effect of less people on AFDC would, of course, result in some additional savings. CBO estimates that should this provision be adopted, it would result in a net savings of \$175 million in fiscal year 1978.

Fiscal year:	Millions
1978.....	—\$175
1979.....	—230
1980.....	—241
1981.....	—261
1982.....	—276

7. Estimate Comparison: None.

8. Previous CBO estimate: None.

9. Estimate Prepared by: June O'Neill, Stephen Chaikind, Al Peden, Deborah Kalcevic, Mickey Levey.

10. Estimate Approved by:

JUNE O'NEILL  
(For James L. Blum,  
(Assistant Director for Budget Analysis).)

## VI. CHANGES IN EXISTING LAW

In compliance with paragraph 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law in which no change is proposed is shown in roman):



## SOCIAL SECURITY ACT, AS AMENDED

\* \* \* \* \*

TITLE II—FEDERAL OLD-AGE, SURVIVORS, AND DIS-  
ABILITY INSURANCE BENEFITS

**Federal Old-Age and Survivors Insurance Trust Fund and  
Federal Disability Insurance Trust Fund**

**Section 201. (a) \* \* \***

(b) There is hereby created on the books of the Treasury of the United States a trust fund to be known as the "Federal Disability Insurance Trust Fund". The Federal Disability Insurance Trust Fund shall consist of such gifts and bequests as may be made as provided in subsection (i) (1), and of such amounts as may be appropriated to, or deposited in, such fund as provided in this section. There is hereby appropriated to the Federal Disability Insurance Trust Fund for the fiscal year ending June 30, 1957, and for each fiscal year thereafter, out of any moneys in the Treasury not otherwise appropriated, amounts equivalent to 100 per centum of—

(1) (A)  $\frac{1}{2}$  of 1 per centum of the wages (as defined in section 3121 of the Internal Revenue Code of 1954) paid after December 31, 1956, and before January 1, 1966, and reported to the Secretary of the Treasury or his delegate pursuant to subtitle F of the Internal Revenue Code of 1954, (B) 0.70 of 1 per centum of the wages (as so defined) paid after December 31, 1965, and before January 1, 1968, and so reported, and (C) 0.95 of 1 per centum of the wages (as so defined) paid after December 31, 1967, and before January 1, 1970, and so reported, (D) 1.10 per centum of the wages (as so defined) paid after December 31, 1969, and before January 1, 1973, and so reported, (E) 1.1 per centum of the wages (as so defined) paid after December 31, 1972, and before January 1, 1974, and so reported, (F) 1.15 per centum of the wages (as so defined) paid after December 31, 1973, and before January 1, 1978, and so reported, [(G) 1.2 per centum of the wages (as so defined) paid after December 31, 1977, and before January 1, 1981, and so reported, (H) 1.3 per centum of the wages (as so defined) paid after December 31, 1980, and before January 1, 1986 and so reported, (I) 1.4 per centum of the wages (as so defined) paid after December 31, 1985, and before January 1, 2011, and so reported, and (J) 1.7 per centum of the wages (as so defined) paid after December 31, 2010, and so reported, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports; and] (G) 1.550 per centum of the wages (as so defined) paid after December 31, 1977, and before January 1, 1979, and so reported, (H) 1.500 per centum of the wages (as so defined) paid after December 31, 1978, and before January 1, 1981, and so reported, (I) 1.650 per centum of the wages (as so defined) paid after December 31, 1980, and before January 1, 1985, and so reported (J) 1.900 per centum of the wages (as so defined) paid after De-

*ember 31, 1984, and before January 1, 1990, and so reported, (K) 2.100 per centum of the wages (as so defined) paid after December 31, 1989, and before January 1, 1995, (L) 2.400 per centum of the amount of the wages (as so defined) paid after December 31, 1994, and before January 1, 2001, (M) 2.700 per centum of the amount of the wages (as so defined) paid after December 31, 2000, and before January 1, 2011, and (N) 3.00 per centum of the amount of the wages (as so defined) paid after December 31, 2010, and so reported, which wages shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of wages established and maintained by such Secretary in accordance with such reports; and*

(2) (A)  $\frac{3}{8}$  of 1 per centum of the amount of self-employment income (as defined in section 1402 of the Internal Revenue Code of 1954) reported to the Secretary of the Treasury or his delegate on tax returns under subtitle F of the Internal Revenue Code of 1954 for any taxable year beginning after December 31, 1956, and before January 1, 1966, (B) and 0.525 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1965, and before January 1, 1968, and (C) 0.7125 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1967, and before January 1, 1970, (D) 0.825 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1969, and before January 1, 1973, (E) 0.795 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1972, and before January 1, 1974, (F) 0.815 of 1 per centum of the amount of self-employment income (as so defined) as reported for any taxable year beginning after December 31, 1973, and before January 1, 1978, [(G) 0.850 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1977, and before January 1, 1981, (H) 0.920 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1980, and before January 1, 1986, (I) 0.990 of 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1985, and before January 1, 2011, and (J) 1 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2010, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns.] (G) 1.090 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1977, and before January 1, 1979, (H) 1.040 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1978, and be-



fore January 1, 1981, (I) 1.2375 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1980, and before January 1, 1985, (J) 1.425 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1980, and before January 1, 1984, (K) 1.575 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1990, and before January 1, 1995, (L) 1.800 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 1994, and before January 1, 2021, (M) 2.025 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2000, and before January 1, 2011, and (N) 2.250 per centum of the amount of self-employment income (as so defined) so reported for any taxable year beginning after December 31, 2010, which self-employment income shall be certified by the Secretary of Health, Education, and Welfare on the basis of the records of self-employment income established and maintained by the Secretary of Health, Education, and Welfare in accordance with such returns.

\* \* \* \* \*

## Old-Age and Survivors Insurance Benefit Payments

### Old-Age Insurance Benefits

**Sec. 202.** (a) Every individual who—

- (1) is a fully insured individual (as defined in section 214(a)),
- (2) has attained age 62, and

(3) has filed application for old-age insurance benefits or was entitled to disability insurance benefits for the month preceding the month in which he attained the age of 65, shall be entitled to an old-age insurance benefit for each month, beginning with the first month after August 1950 in which such individual becomes so entitled to such insurance benefits and ending with the month preceding the month in which he dies. Except as provided in subsection (q) and subsection (w), such individual's old-age insurance benefit for any month shall be equal to his primary insurance amount (as defined in section 215(a)) for such month.

### Wife's Insurance Benefits

(b)(1) The wife (as defined in section 216(b)) and every divorced wife (as defined in section 216(d)) of an individual entitled to old-age or disability insurance benefits, if such wife or such divorced wife—

(A) has filed application for wife's insurance benefits,

(B) has attained age 62 or (in the case of a wife) has in her care (individually or jointly with such individual) at the time of filing such application a child entitled to a child's insurance benefit on the basis of the wages and self-employment income of such individual,

(C) in the case of a divorced wife, is not married, and

(D) is not entitled to old-age or disability insurance benefits or is entitled to old-age or disability insurance benefits based on



a primary insurance amount which is less than one-half of the primary insurance amount of such individual, shall (subject to subsection (s)) be entitled to a wife's insurance benefit for each month beginning with the first month in which she becomes so entitled to such insurance benefits and ending with the month preceding the first month in which any of the following occurs—

(E) she dies,

(F) such individual dies,

(G) in the case of a wife, they are divorced and either (i) she has not attained age 62, or (ii) she has attained age 62 but has not been married to such individual for a period of 20 years immediately before the date the divorce became effective,

(H) in the case of a divorced wife, she marries a person other than such individual,

(I) in the case of a wife who has not attained age 62, no child of such individual is entitled to a child's insurance benefit,

(J) she becomes entitled to an old-age or disability insurance benefit based on a primary insurance amount which is equal to or exceeds one-half of the primary insurance amount of such individual, or

(K) such individual is not entitled to disability insurance benefits and is not entitled to old-age insurance benefits.

(2) Except as provided in subsection (q) and paragraph (4) of this subsection, such wife's insurance benefit for each month shall be equal to one-half of the primary insurance amount of her husband (or, in the case of a divorced wife, her former husband) for such month.

(3) In the case of any divorced wife who marries—

(A) an individual entitled to benefits under subsection (f) or (h), of this section, or

(B) an individual who has attained the age of 18 and is entitled to benefits under subsection (d),

such divorced wife's entitlement to benefits under this subsection shall, notwithstanding the provisions of paragraph (1) (but subject to subsection (s)), not be terminated by reason of such marriage; except that, in the case of such a marriage to an individual entitled to benefits under subsection (d), the preceding provisions of this paragraph shall not apply with respect to benefits for months after the last month for which such individual is entitled to such benefits under subsection (d) unless he ceases to be so entitled by reason of his death.

(4) (A) *The amount of a wife's insurance benefit for each month as determined after application of the provisions of subsections (g) and (k) shall be reduced (but not below zero) by an amount equal to the amount of any monthly benefit payable to such wife (or divorced wife) for such month which is based upon her earnings while in the service of the Federal Government or any State (or political subdivision thereof as defined in section 218(b)(2)) if, on the last day she was employed by such entity, such service did not constitute "employment" as defined in section 210.*

(B) *For purposes of this paragraph, any periodic benefit which otherwise meets the requirements of subparagraph (A), but which is paid on other than a monthly basis, shall be allocated on a basis equivalent to a monthly benefit (as determined by the Secretary) and such*

*equivalent monthly benefit shall constitute a monthly benefit for purposes of subparagraph (A). For purposes of this subparagraph, the term "periodic benefit" includes a benefit payable in a lump sum if it is a commutation of, or a substitute for, periodic payments.*

#### Husband's Insurance Benefits

(c) (1) The husband (as defined in section 216(f)) of an individual entitled to old-age or disability insurance benefits, if such husband—

(A) has filed application for husband's insurance benefits,

(B) has attained age 62, and

[(C) was receiving at least one-half of his support, as determined in accordance with regulations prescribed by the Secretary, from such individual—

(i) if she had a period of disability which did not end prior to the month in which she became entitled to old-age or disability insurance benefits, at the beginning of such period or at the time she became entitled to such benefits, or

(ii) if she did not have such a period of disability, at the time she became entitled to such benefits,

and filed proof of such support within two years after the month in which she filed application with respect to such period of disability or after the month in which she became entitled to such benefits, as the case may be, or, if she did not have such a period, two years after the month in which she became entitled to such benefits, and]

[(D)](C) is not entitled to old-age or disability insurance benefits, or is entitled to old-age or disability insurance benefits based on a primary insurance amount which is less than one-half of the primary insurance amount of his wife,

shall be entitled to a husband's insurance benefit for each month, beginning with the first month after August 1950 in which he becomes so entitled to such insurance benefits and ending with the month preceding the month in which any of the following occurs: he dies, his wife dies, they are divorced, or he becomes entitled to an old-age or disability insurance benefit, based on a primary insurance amount which is equal to or exceeds one-half of the primary insurance amount of his wife, or his wife is not entitled to disability insurance benefits and is not entitled to old-age insurance benefits.

[(2) The provisions of subparagraph (C) of paragraph (1) shall (subject to subsection (s)) not be applicable in the case of any husband who—

[(A) in the month prior to the month of his marriage to such individual was entitled to, or on application therefor and attainment of age 62 in such prior month would have been entitled to, benefits under subsection (f) or (h);

[(B) in the month prior to the month of his marriage to such individual had attained age eighteen and was entitled to, or on application therefor would have been entitled to, benefits under subsection (d); or

[(C) in the month prior to the month of his marriage to such individual he was entitled to, or on application therefor and attainment of the required age (if any) would have been entitled



to, a widower's, child's (after attainment of age 18), or parent's insurance annuity under section 5 of the Railroad Retirement Act of 1937, as amended.】

(2) (A) *The amount of a husband's insurance benefit for each month as determined after application of the provisions of subsections (q) and (k) shall be reduced (but not below zero) by an amount equal to the amount of any monthly benefit payable to such husband for such month which is based upon his earnings while in the service of the Federal Government or any State (or political subdivision thereof, as defined in section 218(b)(2)) if, on the last day he was employed by such entity, such service did not constitute "employment" as defined in section 210.*

(B) *For purposes of this paragraph, any periodic benefit which otherwise meets the requirements of subparagraph (A), but which is paid on other than a monthly basis, shall be allocated on a basis equivalent to a monthly benefit (as determined by the Secretary) and such equivalent monthly benefit shall constitute a monthly benefit for purposes of subparagraph (A). For purposes of this subparagraph, the term "periodic benefit" includes a benefit payable in a lump sum if it is a commutation of, or a substitute for, periodic payments.*

(3) Except as provided in subsection (q) and paragraph (2) of this subsection, such husband's insurance benefit for each month shall be equal to one-half of the primary insurance amount of his wife for such month.

(4) (A) *The amount of a husband's insurance benefit for each month as determined after application of the provisions of subsections (q) and (k) shall be reduced (but not below zero) by an amount equal to the amount of any monthly benefit payable to such husband for such month which is based upon his earnings while in the service of any unit of Federal, State, or local government if, on the last day he was employed by such unit, such service did not constitute "employment" as defined in section 210.*

(B) *Any benefit which otherwise meets the requirements of subparagraph (A), but which is paid on other than a monthly basis, shall be recomputed on a basis equivalent to a monthly benefit (as determined by the Secretary) and such equivalent monthly benefit shall constitute a monthly benefit for purposes of subparagraph (A).*

\* \* \* \* \*

#### Widow's Insurance Benefits

(e)(1) The widow (as defined in section 216(c)) and every surviving divorced wife (as defined in section 216(d)) of an individual who died a fully insured individual, if such widow or such surviving divorced wife—

(A) is not married,

(B) (i) has attained age 60, or (ii) has attained age 50 but has not attained age 60 and is under a disability (as defined in section 223(d)) which began before the end of the period specified in paragraph (5),

(C) (i) has filed application for widow's insurance benefits, or was entitled to wife's insurance benefits, on the basis of the wages and self-employment income of such individual, for the month



preceding the month in which he died, and (I) has attained age 65 or (II) is not entitled to benefits under subsection (a) or section 223, or

(ii) was entitled, on the basis of such wages and self-employment income, to mother's insurance benefits for the month preceding the month in which she attained age 65, and

(D) is not entitled to old-age insurance benefits or is entitled to old-age insurance benefits each of which is less than the primary insurance amount of such deceased individual, shall be entitled to a widow's insurance benefit for each month, beginning with—

(E) if she satisfies subparagraph (B) by reason of clause (i) thereof, the first month in which she becomes so entitled to such insurance benefits, or

(F) if she satisfies subparagraph (B) by reason of clause (ii) thereof—

(i) the first month after her waiting period (as defined in paragraph (6)) in which she becomes so entitled to such insurance benefits, or

(ii) the first month during all of which she is under a disability and in which she becomes so entitled to such insurance benefits, but only if she was previously entitled to insurance benefits under this subsection on the basis of being under a disability and such first month occurs (I) in the period specified in paragraph (5) and (II) after the month in which a previous entitlement to such benefits on such basis terminated,

and ending with the month preceding the first month in which any of the following occurs: she remarries, dies, becomes entitled to an old-age insurance benefit equal to or exceeding the primary insurance amount of such deceased individual, or, if she became entitled to such benefits before she attained age 60, the third month following the month in which her disability ceases (unless she attains age 65 on or before the last day of such third month).

(2) (A) Except as provided in subsection (q), [paragraph (4)] paragraphs (4) and (8) of this subsection, and subparagraph (B) of this paragraph, such widow's insurance benefit for each month shall be equal to the primary insurance amount (as determined after application of the following sentence) of such deceased individual. If such deceased individual was (or upon application would have been) entitled to an old-age insurance benefit which was increased (or subject to being increased) on account of delayed retirement under the provisions of subsection (w), then, for purposes of this subsection, such individual's primary insurance amount shall be deemed to be equal to the old-age insurance benefit (increased, where applicable, under section 215(f) (5) or (6) and under section 215(i) as if such individual were still alive in the case of an individual who has died) which he was receiving (or would upon application have received) for the month prior to the month in which he died, and (notwithstanding the provisions of paragraph (3) of such subsection (w)) the number of increment months shall include any month in the months of the calendar year in which he died, prior to the month in which he died, which satisfy the conditions in paragraph (2) of such subsection (w).

(B) If the deceased individual (on the basis of whose wages and self-employment income a widow or surviving divorced wife is entitled to widow's insurance benefits under this subsection) was, at any time, entitled to an old-age insurance benefit which was reduced by reason of the application of subsection (q), the widow's insurance benefit of such widow or surviving divorced wife for any month shall, if the amount of the widow's insurance benefit of such widow or surviving divorced wife (as determined under subparagraph (A) and after application of subsection (q)) is greater than—

(i) the amount of the old-age insurance benefit to which such deceased individual would have been entitled (after application of subsection (q)) for such month if such individual were still living *and section 215(f)(6) were applied, where applicable*, and

(ii) 82½ percent of the primary insurance amount of such deceased individual,

be reduced to the amount referred to in clause (i), or (if greater) the amount referred to in clause (ii).

(3) In the case of a widow or surviving divorced wife who marries—

(A) an individual entitled to benefits under subsection (f) or (h) of this section, or

(B) an individual who has attained the age of eighteen and is entitled to benefits under subsection (d),

such widow's or surviving divorced wife's entitlement to benefits under this subsection shall, notwithstanding the provisions of paragraph (1) but subject to subsection (s), not be terminated by reason of such marriage; except that, in the case of such a marriage to an individual entitled to benefits under subsection (d), the preceding provisions of this paragraph shall not apply with respect to benefits for months after the last month for which such individual is entitled to such benefits under subsection (d) unless he ceases to be so entitled by reason of his death.

(4) If a widow, after attaining the age of 60, marries an individual (other than one described in subparagraph (A) or (B) of paragraph (3)), such marriage shall, for purposes of paragraph (1), be deemed not to have occurred; except that, notwithstanding the provisions of paragraph (2) and subsection (q), such widow's insurance benefit for the month in which such marriage occurs and each month thereafter prior to the month in which the husband dies or such marriage is otherwise terminated, shall be equal to one-half of the primary insurance amount of the deceased individual on whose wages and self-employment income such benefit is based;

(5) The period referred to in paragraph (1) (B) (ii), in the case of any widow or surviving divorced wife, is the period beginning with whichever of the following is the latest:

(A) the month in which occurred the death of the fully insured individual referred to in paragraph (1) on whose wages and self-employment income her benefits are or would be based, or

(B) the last month for which she was entitled to mother's insurance benefits on the basis of the wages and self-employment income of such individual, or

(C) the month in which a previous entitlement to widow's insurance benefits on the basis of such wages and self-employment income terminated because her disability had ceased.



and ending with the month before the month in which she attains age 60, or, if earlier, with the close of the eighty-fourth month following the month with which such period began.

(6) The waiting period referred to in paragraph (1)(F), in the case of any widow or surviving divorced wife, is the earliest period of five consecutive calendar months—

(A) throughout which she has been under a disability, and

(B) which begins not earlier than with whichever of the following is the later: (i) the first day of the seventeenth month before the month in which her application is filed, or (ii) the first day of the fifth month before the month in which the period specified in paragraph (5) begins.

(7) In the case of an individual entitled to monthly insurance benefits payable under this section for any month prior to January 1973 whose benefits were not redetermined under section 102(g) of the Social Security Amendments of 1972, such benefits shall not be redetermined pursuant to such section, but shall be increased pursuant to any general benefit increase (as defined in section 215(i)(3)) or any increase in benefits made under or pursuant to section 215(i), including for this purpose the increase provided effective for March 1974, as though such redetermination had been made.

(8) (A) *The amount of a widow's insurance benefit for each month as determined (after application of the provisions of subsection (g), paragraph (2)(B), and paragraph (4)) shall be reduced (but not below zero) by an amount equal to the amount of any monthly benefit payable to such widow (or surviving divorced wife) for such month which is based upon her earnings while in the service of the Federal Government or any State (or any political subdivision thereof, as defined in section 218(b)(2)) if, on the last day she was employed by such entity, such service did not constitute "employment" as defined in section 210.*

(B) *For purposes of this paragraph, any periodic benefit which otherwise meets the requirements of subparagraph (A), but which is paid on other than a monthly basis, shall be allocated on a basis equivalent to a monthly benefit (as determined by the Secretary) and such equivalent monthly benefit shall constitute a monthly benefit for purposes of subparagraph (A). For purposes of this subparagraph, the term "periodic benefit" includes a benefit payable in a lump sum if it is a commutation of, or a substitute for, periodic payments.*

#### Widower's Insurance Benefits

(f) (1) The widower (as defined in section 216(g)) of an individual who died a fully insured individual, if such widower—

(A) has not remarried,

(B) (i) has attained age 60, or (ii) has attained age 50 but has not attained age 60 and is under a disability (as defined in section 223(d)) which began before the end of the period specified in paragraph (6),

(C) has filed application for widower's insurance benefits or was entitled to husband's insurance benefits, on the basis of the wages and self-employment income of such individual, for the month preceding the month in which she died, and (I) has at-



tained age 65 or (II) is not entitled to benefits under subsection (a) or section 223,

[(D)] (i) was receiving at least one-half of his support, as determined in accordance with regulations prescribed by the Secretary, from such individual at the time of her death or, if such individual had a period of disability which did not end prior to the month in which she died, at the time such period began or at the time of her death, and filed proof of such support within two years after the date of such death, or, if she had such a period of disability, within two years after the month in which she filed application with respect to such period of disability or two years after the date of such death, as the case may be, or (ii) was receiving at least one-half of his support, as determined in accordance with regulations prescribed by the Secretary from such individual at the time she became entitled to old-age or disability insurance benefits or, if such individual had a period of disability which did not end prior to the month in which she became so entitled, at the time such period began or at the time she became entitled to such benefits, and filed proof of such support within two years after the month in which she became entitled to such benefits, or, if she had such a period of disability, within two years after the month in which she filed application with respect to such period of disability or two years after the month in which she became entitled to such benefits, as the case may be.]

[(E)] (D) is not entitled to old-age insurance benefits, or is entitled to old-age insurance benefits each of which is less than the primary insurance amount of his deceased wife.

shall be entitled to a widower's insurance benefit for each month, beginning with—

[(F)] (E) if he satisfies subparagraph (B) by reason of clause (i) thereof, the first month in which he becomes so entitled to such insurance benefits, or

[(G)] (F) if he satisfies subparagraph (B) by reason of clause (ii) thereof—

(i) the first month after his waiting period (as defined in paragraph (7)) in which he becomes so entitled to such insurance benefits, or

(ii) the first month during all of which he is under a disability and in which he becomes so entitled to such insurance benefits, but only if he was previously entitled to insurance benefits under this subsection on the basis of being under a disability and such first month occurs (I) in the period specified in paragraph (6) and (II) after the month in which a previous entitlement to such benefits on such basis terminated,

and ending with the month preceding the first month in which any of the following occurs: he remarries, dies, or becomes entitled to an old-age insurance benefit equal to or exceeding the primary insurance amount of his deceased wife, or, if he became entitled to such benefits before he attained age 60, the third month following the month in which his disability ceases (unless he attains age 65 on or before the last day of such third month).

[(2) The provisions of subparagraph (D) of paragraph (1) shall (subject to subsection (s)) not be applicable in the case of any individual who—

[(A) in the month prior to the month of his marriage to such individual was entitled to, or on application therefor and attainment of age 62 in such prior month would have been entitled to, benefits under this subsection or subsection (h);

[(B) in the month prior to the month of his marriage to such individual had attained age eighteen and was entitled to, or on application therefor would have been entitled to, benefits under subsection (d); or

[(C) in the month prior to the month of his marriage to such individual he was entitled to, or on application therefor and attainment of the required age (if any), would have been entitled to, a widower's, child's (after attainment of age 18), or parent's insurance annuity under section 5 of the Railroad Retirement Act of 1937, as amended.]

(2) (A) *The amount of a widower's insurance benefit for each month (as determined after application of the provisions of subsection (g), paragraph (3) (B) and paragraph (5)) shall be reduced (but not below zero) by an amount equal to the amount of any monthly benefit payable to such widower for such month which is based upon his earnings while in the service of the Federal Government or any State (or any political subdivision thereof, as defined in section 218(b) (2)) if, on the last day he was employed by such entity, such service did not constitute "employment" as defined in section 210.*

(B) *For purposes of this paragraph, any periodic benefit which otherwise meets the requirements of subparagraph (A), but which is paid on other than a monthly basis, shall be allocated on a basis equivalent to a monthly benefit (as determined by the Secretary) and such equivalent monthly benefit shall constitute a monthly benefit for purposes of subparagraph (A). For purposes of this subparagraph, the term "periodic benefit" includes a benefit payable in a lump sum if it is a commutation of, or a substitute for, periodic payments.*

(3) (A) Except as provided in subsection (q), [paragraph (5)] paragraphs (2) and (5), of this subsection, and subparagraph (B) of this paragraph, such widower's insurance benefit for each month shall be equal to the primary insurance amount (as determined after application of the following sentence) of his deceased wife. *If such deceased individual was (or upon application would have been) entitled to an old-age insurance benefit which was increased (or subject to being increased) on account of delayed retirement under the provisions of subsection (w), then, for purposes of this subsection, such individual's primary insurance amount shall be deemed to be equal to the old-age insurance benefit (increased, where applicable, under section 215(f) (5) or (6) and under section 215(i) as if such individual were still alive in the case of an individual who has died) which she was receiving (or would upon application have received) for the month prior to the month in which she died, and (notwithstanding the provisions of paragraph (3) of such subsection (w)) the number of increment months shall include any month in the months of the calendar year in which she died, prior to the month in which she died, which satisfy the conditions in paragraph (2) of such subsection (w).*

(B) If the deceased wife (on the basis of whose wages and self-employment income a widower is entitled to widower's insurance benefits under this subsection) was, at any time, entitled to an old-age insurance benefit which was reduced by reason of the application of subsection (q), the widower's insurance benefit of such widower for any month shall, if the amount of the widower's insurance benefit of such widower (as determined under subparagraph (A) and after application of subsection (q)) is greater than—

(i) the amount of the old-age insurance benefit to which such deceased wife would have been entitled (after application of subsection (q)) for such month if such wife were still living *and section 215(f)(6) were applied, where appropriate*; and

(ii) 82½ percent of the primary insurance amount of such deceased wife;

be reduced to the amount referred to in clause (i), or (if greater) the amount referred to in clause (ii).

(4) In the case of a widower who remarries—

(A) an individual entitled to benefits under subsection (b), (e), (g), or (h), or

(B) an individual who has attained the age of eighteen and is entitled to benefits under subsection (d),

such widower's entitlement to benefits under this subsection shall, notwithstanding the provisions of paragraph (1) but subject to subsection (s), not be terminated by reason of such marriage.

(5) If a widower, after attaining the age of 60, marries an individual (other than one described in subparagraph (A) or (B) of paragraph (4)), such marriage shall, for purposes of paragraph (1), be deemed not to have occurred; except that, notwithstanding the provisions of paragraph (3) and subsection (q), such widower's insurance benefit for the month in which such marriage occurs and each month thereafter prior to the month in which the wife dies or such marriage is otherwise terminated, shall be equal to one-half of the primary insurance amount of the deceased individual on whose wages and self-employment income such benefit is based.

(6) The period referred to in paragraph (1) (B) (ii), in the case of any widower, is the period beginning with whichever of the following is the latest:

(A) the month in which occurred the death of the fully insured individual referred to in paragraph (1) on whose wages and self-employment income his benefits are or would be based, or

(B) the month in which a previous entitlement to widower's insurance benefits on the basis of such wages and self-employment income terminated because his disability had ceased, and ending with the month before the month in which he attains age 60, or, if earlier, with the close of the eighty-fourth month following the month with which such period began.

(7) The waiting period referred to in paragraph (1) [(G)] (F), in the case of any widower, is the earliest period of five consecutive calendar months—

(A) throughout which he has been under a disability, and

(B) which begins not earlier than with whichever of the following is the later: (i) the first day of the seventeenth month before the month in which his application is filed, or (ii) the



first day of the fifth month before the month in which the period specified in paragraph (6) begins.

(8) In the case of an individual entitled to monthly insurance benefits payable under this section for any month prior to January 1973 whose benefits were not redetermined under section 102(g) of the Social Security Amendments of 1972, such benefits shall not be redetermined pursuant to such section, but shall be increased pursuant to any general benefit increase (as defined in section 215(i)(3)) or any increase in benefits made under or pursuant to section 215(i), including for this purpose the increase provided effective for March 1974, as though such redetermination had been made.

#### Mother's Insurance Benefits

(g)(1) The widow and every surviving divorced mother (as defined in section 216(d)) of an individual who died a fully or currently insured individual, if such widow or surviving divorced mother—

(A) is not married,

(B) is not entitled to a widow's insurance benefit,

(C) is not entitled to old-age insurance benefits, or is entitled to old-age insurance benefits each of which is less than three-fourths of the primary insurance amount of such individual,

(D) has filed application for mother's insurance benefits, or was entitled to wife's insurance benefits on the basis of the wages and self-employment income of such individual for the month preceding the month in which he died,

(E) at the time of filing such application has in her care a child of such individual entitled to a child's insurance benefit, and

(F) in the case of a surviving divorced mother—

(i) the child referred to in subparagraph (E) is her son, daughter, or legally adopted child, and

(ii) the benefits referred to in such subparagraph are payable on the basis of such individual's wages and self-employment income,

shall (subject to subsection (s)) be entitled to a mother's insurance benefit for each month, beginning with the first month after August 1950 in which she becomes so entitled to such insurance benefits and ending with the month preceding the first month in which any of the following occurs: no child of such deceased individual is entitled to a child's insurance benefit, such widow or surviving divorced mother becomes entitled to an old-age insurance benefit equal to or exceeding three-fourths of the primary insurance amount of such deceased individual, she becomes entitled to a widow's insurance benefit, she remarries, or she dies. Entitlement to such benefits shall also end, in the case of a surviving divorced mother, with the month immediately preceding the first month in which no son, daughter, or legally adopted child of such surviving divorced mother is entitled to a child's insurance benefit on the basis of the wages and self-employment income of such deceased individual.

(2) **[Such]** *Except as provided in paragraph (4) of this subsection, such mother's insurance benefit for each month shall be equal to three-fourths of the primary insurance amount of such deceased individual.*

(3) In the case of a widow or surviving divorced mother who marries—

(A) an individual entitled to benefits under subsection (a), (f), or (h), or under section 223(a), or

(B) an individual who has attained the age of eighteen and is entitled to benefits under subsection (d),

the entitlement of such widow or surviving divorced mother to benefits under this subsection shall, notwithstanding the provisions of paragraph (1) but subject to subsection (s), not be terminated by reason of such marriage; except that, in the case of such a marriage to an individual entitled to benefits under section 223(a) or subsection (d) of this section, the preceding provisions of this paragraph shall not apply with respect to benefits for months after the last month for which such individual is entitled to such benefits under section 223(a) or subsection (d) of this section unless (i) he ceases to be so entitled by reason of his death, or (ii) in the case of an individual who was entitled to benefits under section 223(a), he is entitled, for the month following such last month, to benefits under subsection (a) of this section.

(4) (A) *The amount of a mother's insurance benefit for each month to which any individual is entitled under this subsection shall be reduced (but not below zero) by an amount equal to the amount of any monthly benefit payable to such individual for such month which is based upon such individual's earnings while in the service of the Federal Government or any State (or political subdivision thereof, as defined in section 218(b)(2)) if, on the last day such individual was employed by such entity, such service did not constitute "employment" as defined in section 210.*

(B) *For purposes of this paragraph, any periodic benefit which otherwise meets the requirements of subparagraph (A), but which is paid on other than a monthly basis, shall be allocated on a basis equivalent to a monthly benefit (as determined by the Secretary) and such equivalent monthly benefit shall constitute a monthly benefit for purposes of subparagraph (A). For purposes of this subparagraph, the term "periodic benefit" includes a benefit payable in a lump sum if it is a commutation of, or a substitute for, periodic payments.*

\* \* \* \* \*

#### Application for Monthly Insurance Benefits

(j) (1) **[An]** *Subject to the limitations contained in paragraph (4), an individual who would have been entitled to a benefit under subsection (a), (b), (c), (d), (e), (f), (g), or (h) for any month after August 1950 had he filed application therefor prior to the end of such month shall be entitled to such benefit for such month if he files application therefor prior to the end of the twelfth month immediately succeeding such month. Any benefit under this title for a month prior to the month in which application is filed shall be reduced, to any extent that may be necessary, so that it will not render erroneous any benefit which, before the filing of such application, the Secretary has certified for payment for such prior month.*

(2) *An application for any monthly benefits under this section filed before the first month in which the applicant satisfies the requirements for such benefits shall be deemed a valid application only if the*



applicant satisfies the requirements for such benefits before the Secretary makes a final decision on the application. If upon final decision by the Secretary, or decision upon judicial review thereof, such applicant is found to satisfy such requirements, the application shall be deemed to have been filed in such first month.

(3) Notwithstanding the provisions of paragraph (1) an individual may, at his option, waive entitlement to any benefit referred to in paragraph (1) for any one or more consecutive months (beginning with the earliest month for which such individual would otherwise be entitled to such benefit) which occur before the month in which such individual files application for such benefit; and, in such case, such individual shall not be considered as entitled to such benefits for any such month or months before such individual filed such application. An individual shall be deemed to have waived such entitlement for any such month for which such benefit would, under the second sentence of paragraph (1), be reduced to zero.

(4) (A) *Except as provided in subparagraph (B), no individual shall be entitled to benefits under subsection (a), (b), (c), (e), or (f) for any month prior to the month in which he or she files an application for such benefits if the effect of entitlement to such monthly benefit would be to reduce, pursuant to subsection (g), the amount of the monthly benefit to which such individual would otherwise be entitled for the month in which such application is filed.*

(B) (i) *If the individual applying for retroactive benefits is applying for such benefits under subsection (a), and there are one or more other persons who would, except for subparagraph (A), be entitled for any month, on the basis of the wages and self-employment income of such individual and because of such individual's entitlement to such retroactive benefits, to retroactive benefits under subsection (b), (c), or (d) not subject to reduction under subsection (g), then subparagraph (A) shall not apply with respect to such month or any subsequent month.*

(ii) *If the individual applying for retroactive benefits is a surviving spouse, and or surviving divorced spouse who is under a disability (as defined in section 223(d)), and such individual would, except for subparagraph (A), be entitled to retroactive benefits as a disabled surviving spouse or disabled surviving divorced spouse for any month before he or she attained the age of 60, then subparagraph (A) shall not apply with respect to such month or any subsequent month.*

(iii) *If the individual applying for retroactive benefits has excess earnings (as defined in section 203(f)) in the year in which he or she files an application for such benefits which could, except for subparagraph (A), be charged to months in such year prior to the month of application, then subparagraph (A) shall not apply to so many of such months immediately preceding the month of application as are required to charge such excess earnings to the maximum extent possible.*

(iv) *As used in this subparagraph, the term "retroactive benefits" means a benefit to which an individual becomes entitled for a month prior to the month in which application for such benefit is filed.*

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### Minimum Survivor's Benefit

(m) [(1) In any case in which an individual is entitled to a monthly benefit under this section on the basis of the wages and self-employment income of a deceased individual for any month and no other person is (without the application of subsection (j) (1)) entitled to a monthly benefit under this section for such month on the basis of such wages and self-employment income, such individual's benefit amount for such month, prior to reduction under subsection (k) (3), shall be not less than the first amount appearing in column IV of the table in (or deemed to be in) section 215(a), except as provided in paragraph (2).] *(1) In any case in which an individual is entitled to a monthly benefit under this section on the basis of a primary insurance amount computed under section 215 (a) or (d), as in effect after December 1978, on the basis of the wages and self-employment income of a deceased individual for any month and no other person is (without the application of subsection (j) (1)) entitled to a monthly benefit under this section for that month on the basis of those wages and self-employment income, the individual's benefit amount for that month, prior to reduction under subsection (k) (3), shall not be less than that provided by subparagraph (C) (I) or (C) (II) (whichever is greater) of section 215(a) (1). In any case in which an individual is entitled to a monthly benefit under this section on the basis of a primary insurance amount computed under section 215 as in effect (without regard to the table contained therein) prior to January 1979, that monthly benefit shall be determined under this section as in effect as prescribed by section 215(a) (5) and increased under subsection (i) (4).*

(2) In the case of any such individual who is entitled to a monthly benefit under subsection (e) or (f), such individual's benefit amount, after reduction under subsection (q) (1), shall be not less than—

(A) \$84.50, if his first month of entitlement to such benefit is the month in which such individual attained age 62 or a subsequent month, or

(B) \$84.50 reduced under subsection (q) (1) as if retirement age as specified in subsection (q) (6) (A) (ii) were age 62 instead of the age specified in subsection (q) (9), if his first month of entitlement to such benefit is before the month in which he attained age 62.

(3) In the case of any individual whose benefit amount was computed (or recomputed) under the provisions of paragraph (2) and such individual was entitled to benefits under subsection (e) or (f) for a month prior to any month after 1972 for which a general benefit increase under this title (as defined in section 215(i) (3)) or a benefit increase under section 215(i) becomes effective, the benefit amount of such individual as computed under paragraph (2) without regard to the reduction specified in subparagraph (B) thereof shall be increased by the percentage increase applicable for such benefit increase, prior to the application of subsection (q) (1) pursuant to paragraph (2) (B) and subsection (q) (4).

**Extension of Period for Filing Proof of Support and Applications for Lump-Sum Death Payment**

(p) In any case in which there is a failure—

(1) to file proof of support under [subparagraph (C) of subsection (c) (1), clause (i) or (ii) of subparagraph (D) of subsection (f) (1), or] subparagraph (B) of subsection (h) (1), or under clause (B) of subsection (f) (1) of this section as in effect prior to the Social Security Act Amendments of 1950, within the period prescribed by such subparagraph or clause, or

(2) to file, in the case of a death after 1946, application for a lump-sum death payment under subsection (i), or under subsection (g) of this section as in effect prior to the Social Security Act Amendments of 1950, within the period prescribed by such subsection,

any such proof or application, as the case may be, which is filed after the expiration of such period shall be deemed to have been filed within such period if it is shown to the satisfaction of the Secretary that there was good cause for failure to file such proof or application within such period. The determination of what constitutes good cause for purposes of this subsection shall be made in accordance with regulations of the Secretary.

**Reduction of Benefit Amounts for Certain Beneficiaries**

(q) (1) If the first month for which an individual is entitled to an old-age, wife's, husband's, widow's, or widower's insurance benefit is a month before the month in which such individual attains retirement age, the amount of such benefit for such month and for any subsequent month shall, subject to the succeeding paragraphs of this subsection, be reduced by—

(A)  $\frac{5}{9}$  of 1 percent of such amount if such benefit is an old-age insurance benefit,  $\frac{25}{36}$  of 1 percent of such amount if such benefit is a wife's or husband's insurance benefit, or  $\frac{19}{40}$  of 1 percent of such amount if such benefit is a widow's or widower's insurance benefit, multiplied by—

(B) (i) the number of months in the reduction period for such benefit (determined under paragraph (6) (A)), if such benefit is for a month before the month in which such individual attains retirement age, or

(ii) if less, the number of such months in the adjusted reduction period for such benefit (determined under paragraph (7)), if for a month before the month in which such individual attains age 62, or (II) for the month in which such individual attains retirement age;

and in the case of a widow or widower whose first month of entitlement to a widow's or widower's insurance benefit is a month before the month in which such widow or widower attains age 60, such benefit, reduced pursuant to the preceding provisions of this paragraph (and before the application of the second sentence of paragraph (8)), shall be further reduced by—

(C)  $\frac{43}{40}$  of 1 percent of the amount of such benefit, multiplied by—

(D)(i) the number of months in the additional reduction period for such benefit (determined under paragraph (6)(B)), if such benefit is for a month before the month in which such individual attains age 62, or

(ii) if less, the number of months in the additional adjusted reduction period for such benefit (determined under paragraph (7)), if such benefit is for the month in which such individual attains age 62 or any month thereafter.

(2) If an individual is entitled to a disability insurance benefit for a month after a month for which such individual was entitled to an old-age insurance benefit, such disability insurance benefit for each month shall be reduced by the amount such old-age insurance benefit would be reduced under paragraphs (1) and (4) for such months had such individual attained age 65 in the first month for which he most recently became entitled to a disability insurance benefit.

(3)(A) If the first month for which an individual both is entitled to a wife's, husband's, widow's, or widower's insurance benefit and has attained age 62 (in the case of a wife's or husband's insurance benefit) or age 50 (in the case of a widow's or widower's insurance benefit) is a month for which such individual is also entitled to—

(i) an old-age insurance benefit (to which such individual was first entitled for a month before he attains age 65), or

(ii) a disability insurance benefit,

then in lieu of any reduction under paragraph (1) (but subject to the succeeding paragraphs of this subsection) such wife's, husband's, widow's, or widower's insurance benefit for each month shall be reduced as provided in subparagraph (B), (C), or (D).

(B) For any month for which such individual is entitled to an old-age insurance benefit and is not entitled to a disability insurance benefit, such individual's wife's, or husband's insurance benefit shall be reduced by the sum of—

(i) the amount by which such old-age insurance benefit is reduced under paragraph (1) for such month, and

(ii) the amount by which such wife's or husband's insurance benefit would be reduced under paragraph (1) for such month if it were equal to the excess of such wife's or husband's insurance benefit (before reduction under this subsection) over such old-age insurance benefit (before reduction under this subsection).

(C) For any month for which such individual is entitled to a disability insurance benefit, such individual's wife's, husband's, widow's, or widower's insurance benefit shall be reduced by the sum of—

(i) the amount by which such disability insurance benefit is reduced under paragraph (2) for such month (if such paragraph applied to such benefit), and

(ii) the amount by which such wife's, husband's, widow's, or widower's insurance benefit would be reduced under paragraph (1) for such month if it were equal to the excess of such wife's, husband's, widow's, or widower's insurance benefit (before reduction under this subsection) over such disability insurance benefit (before reduction under this subsection).

(D) For any month for which such individual is entitled neither to an old-age insurance benefit nor to a disability insurance benefit.



such individual's wife's, husband's, widow's, or widower's insurance benefit shall be reduced by the amount by which it would be reduced under paragraph (1).

(E) If the first month for which an individual is entitled to an old-age insurance benefit (whether such first month occurs before, with, or after the month in which such individual attains the age of 65) is a month for which such individual is also (or would, but for subsection (e)(1) in the case of a widow or surviving divorced wife or subsection (f)(1) in the case of a widower, be) entitled to a widow's or widower's insurance benefit to which such individual was first entitled for a month before she or he attained retirement age, then such old-age insurance benefits shall be reduced by whichever of the following is the larger:

(i) the amount by which (but for this subparagraph) such old-age insurance benefit would have been reduced under paragraph (1), or

(ii) the amount equal to the sum of (I) the amount by which such widow's or widower's insurance benefit would be reduced under paragraph (1) if the period specified in paragraph (6)(A) ended with the month before the month in which she or he attained age 62 and (II) the amount by which such old-age insurance benefit would be reduced under paragraph (1) if it were equal to the excess of such old-age insurance benefit (before reduction under this subsection) over such widow's or widower's insurance benefit (before reduction under this subsection).

(F) If the first month for which an individual is entitled to a disability insurance benefit (when such first month occurs with or after the month in which such individual attains the age of 62) is a month for which such individual is also (or would, but for subsection (e)(1) in the case of a widow or surviving divorced wife or subsection (f)(1) in the case of a widower, be) entitled to a widow's or widower's insurance benefit to which such individual was first entitled for a month before she or he attained retirement age, then such disability insurance benefit for each month shall be reduced by whichever of the following is larger:

(i) the amount by which (but for this subparagraph) such disability insurance benefit would have been reduced under paragraph (2), or

(ii) the amount equal to the sum of (I) the amount by which such widow's or widower's insurance benefit would be reduced under paragraph (1) if the period specified in paragraph (6)(A) ended with the month before the month in which she or he attained age 62 and (II) the amount by which such disability insurance benefit would be reduced under paragraph (2) if it were equal to the excess of such disability insurance benefit (before reduction under this subsection) over such widow's or widower's insurance benefit (before reduction under this subsection).

(G) If the first month for which an individual is entitled to a disability insurance benefit (when such first month occurs before the month in which such individual attains the age of 62) is a month for which such individual is also (or would, but for subsection (e)(1) in the case of a widow or surviving divorced wife or subsection (f)(1) in the case of a widower, be) entitled to a widow's or widower's insurance benefit to which such individual was first entitled for a month before she or he attained retirement age, then such disability insurance benefit for each month shall be reduced by whichever of the following is larger:

in the case of a widower, be) entitled to a widow's or widower's insurance benefit, then such disability insurance benefit for each month shall be reduced by the amount such widow's insurance benefit would be reduced under paragraphs (1) and (4) for such month as if the period specified in paragraph (6)(A) (or, if such paragraph does not apply, the period specified in paragraph (6)(B)) ended with the month before the first month for which she or he most recently became entitled to a disability insurance benefit.

(H) Notwithstanding subparagraph (A) of this paragraph, if the first month for which an individual is entitled to a widow's or widower's insurance benefit is a month for which such individual is also entitled to an old-age insurance benefit to which such individual was first entitled *for that month or* for a month before she or he became entitled to a widow's or widower's benefit, the reduction in such widow's or widower's insurance benefit shall be determined under paragraph (1).

(4) If—

(A) an individual is or was entitled to a benefit subject to reduction under paragraph (1) or (3) of this subsection, and

(B) such benefit is increased by reason of an increase in the primary insurance amount of the individual on whose wages and self-employment income such benefit is based,

**[then the amount of the reduction of such benefit for each month shall be computed separately (under paragraph (1) or (3), whichever applies) for the portion of such benefit which constitutes such benefit before any increase described in subparagraph (B), and separately (under paragraph (1) or (3), whichever applies to the benefit being increased) for each such increase. For purposes of determining the amount of the reduction under paragraph (1) or (3) in any such increase, the reduction period and the adjusted reduction period shall be determined as if such increase were a separate benefit to which such individual was entitled for and after the first month for which such increase is effective.]**

*then the amount of the reduction of such benefit (after the application of any adjustment under paragraph (7)) for each month beginning with the month of such increase in the primary insurance amount, shall be computed under paragraph (1) or (3), whichever applies, as though the increased primary insurance amount had been in effect for and from the month for which the individual first became entitled to such monthly benefit reduced under such paragraph (1) or (3).*

(5) (A) No wife's insurance benefit shall be reduced under this subsection—

(i) for any month before the first month for which there is in effect a certificate filed by her with the Secretary, in accordance with regulations prescribed by him, in which she elects to receive wife's insurance benefits reduced as provided in this subsection, or

(ii) for any month in which she has in her care (individually or jointly with the person on whose wages and self-employment income her wife's insurance benefit is based) a child of such person entitled to child's insurance benefits.

(B) Any certificate described in subparagraph (A) (i) shall be effective for purposes of this subsection (and for purposes of preventing deductions under section 203(c)(2))—

(i) for the month in which it is filed and for any month thereafter, and

(ii) for months, in the period designated by the woman filing such certificate, of one or more consecutive months (not exceeding 12) immediately preceding the month in which such certificate is filed;

except that such certificate shall not be effective for any month before the month in which she attains age 62, nor shall it be effective for any month to which subparagraph (A) (ii) applies.

(C) If a woman does not have in her care a child described in subparagraph (A) (ii) in the first month for which she is entitled to a wife's insurance benefit, and if such first month is a month before the month in which she attains age 65, she shall be deemed to have filed in such first month the certificate described in subparagraph (A) (i).

(D) No widow's insurance benefit for a month in which she has in her care a child of her deceased husband (or deceased former husband) entitled to child's insurance benefits shall be reduced under this subsection below the amount to which she would have been entitled had she been entitled for such month to mother's insurance benefits on the basis of her deceased husband's (or deceased former husband's) wages and self-employment income.

(6) For the purposes of this subsection—

(A) the "reduction period" for an individual's old-age, wife's, husband's, widow's, or widower's insurance benefit is the period—

(i) beginning—

(I) in the case of an old-age or husband's insurance benefit, with the first day of the first month for which such individual is entitled to such benefit, or

(II) in the case of a wife's insurance benefit, with the first day of the first month for which a certificate described in paragraph (5) (A) (i) is effective, or

(III) in the case of a widow's or widower's insurance benefit, with the first day of the first month for which such individual is entitled to such benefit or the first day of the month in which such individual attains age 60, whichever is the later, and

(ii) ending with the last day of the month before the month in which such individual attains retirement age; and

(B) the "additional reduction period" for an individual's widow's, or widower's insurance benefit is the period—

(i) beginning with the first day of the first month for which such individual is entitled to such benefit, but only if such individual has not attained age 60 in such first month, and

(ii) ending with the last day of the month before the month in which such individual attains age 60.

(7) For purposes of this subsection the "adjusted reduction period" for an individual's old-age, wife's, husband's, widow's, or widower's insurance benefit is the reduction period prescribed in paragraph (6) (A) for such benefit, and the "additional adjusted reduction period" for an individual's, widow's, or widower's, insurance benefit is the additional reduction period prescribed by paragraph (6) (B) for such benefit, excluding from each such period—



(A) any month in which such benefit was subject to deductions under section 203(b), 203(c)(1), 203(d)(1), or 222(b),

(B) in the case of wife's insurance benefits, any month in which she had in her care (individually or jointly with the person on whose wages and self-employment income such benefit is based) a child of such person entitled to child's insurance benefits,

(C) in the case of wife's or husband's insurance benefits, any month for which such individual was not entitled to such benefits because [the spouse on whose wages and self-employment income such benefits were based ceased to be under a disability,] *of the occurrence of an event that terminated her or his entitlement to such benefits,*

(D) in the case of widow's insurance benefits, any month in which the reduction in the amount of such benefit was determined under paragraph (5)(D),

(E) in the case of widow's or widower's insurance benefits, any month before the month in which she or he attained age 62, and also for any later month before the month in which he attained retirement age, for which she or he was not entitled to such benefit because of the occurrence of an event that terminated her or his entitlement to such benefits, and

(F) in the case of old-age insurance benefits, any month for which such individual was entitled to a disability insurance benefit.

(8) This subsection shall be applied after reduction under section 203(a) and after application of section 215(g). If the amount of any reduction computed under paragraph (1), (2), or (3) is not a multiple of \$0.10, it shall be reduced to the next lower multiple of \$0.10.

(9) For purposes of this subsection, the term "retirement age" means age 65.

(10) *For purposes of applying paragraph (4), to monthly benefits payable for any month after December 1977, to an individual who was entitled to a monthly benefit as reduced under paragraph (1) or (3) prior to January 1978, the amount of reduction of such benefit for the first month for which such benefit is increased by reason of an increase in the primary insurance amount of the individual on whose wages and self-employment income such benefit is based and for all subsequent months (and similarly for all subsequent increases) shall be increased by the percentage increase in such primary insurance amount (such increase being made in accordance with the provisions of paragraph (8)). In the case of an individual whose reduced benefit under this section is increased as a result of the use of an adjusted reduction period or an additional adjusted reduction period (in accordance with paragraphs (1) and (3) of this section), then for the first month for which such increase is effective and for all subsequent months, the amounts of such reduction (after the application of the previous sentence, if applicable) shall be reduced—*

(A) *in the case of old-age, wife's, and husband's insurance benefits, by multiplying such amount by the ratio of (i) the number of months in the adjusted reduction period to (ii) the number of months in the reduction period,*

(B) *in the case of widow's and widower's insurance benefits for the month in which such individual attains age 62, by multiplying such amount by the ratio of (i) the number of months*

in the reduction period beginning with age 62 multiplied by  $19/40$  of 1 percent, plus the number of months in the adjusted reduction period prior to age 62 multiplied by  $19/40$  of 1 percent, plus the number of months in the adjusted additional reduction period multiplied by  $43/240$  of 1 percent to (ii) the number of reduction period prior to age 62 multiplied by  $19/40$  of 1 percent, plus the number of months in the additional reduction period multiplied by  $43/240$  of 1 percent, and

(C) in the case of widow's and widower's insurance benefits for the month in which such individual attains age 65, by multiplying such amount by the ratio of (i) the number of months in the adjusted reduction period multiplied by  $19/40$  of 1 percent, plus the number of months in adjusted additional reduction period multiplied by  $43/240$  of 1 percent to (ii) the number of months in the reduction period beginning with age 62 multiplied by  $19/40$  of 1 percent, plus the number of months in the adjusted reduction period prior to age 62 multiplied by  $19/40$  of 1 percent, plus the number of months in the adjusted additional reduction period multiplied by  $43/240$  of 1 percent, such decrease being made in accordance with the provisions of paragraph (8).

(11) When an individual is entitled to more than one monthly benefit under this title and one or more of such benefits are reduced under this subsection, the preceding paragraph of this subsection shall apply separately to each such benefit reduced under this subsection before the application of subsection (k) (pertaining to the method by which monthly benefits are offset when an individual is entitled to more than one kind of benefit) and the application of this paragraph shall operate in conjunction with paragraph (5).

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#### Increase in Old-Age Insurance Benefit Amounts on Account of Delayed Retirement

(w) (1) If the first month for which an old-age insurance benefit becomes payable to an individual is not earlier than the month in which such individual attains age 65 (or his benefit payable at such age is not reduced under subsection (q)), the amount of the old-age insurance benefit (other than a benefit based on a primary insurance amount determined under section 215(a) (3) as in effect in December 1978 or section 215(a) (1) (C) (III) as in effect thereafter) which is payable without regard to this subsection to such individual shall be increased by—

(A) one-twelfth of 1 percent of such amount, multiplied by  
(B) the number (if any) of the increment months for such individual.

(2) For purposes of this subsection, the number of increment months for any individual shall be a number equal to the total number of the months—

(A) which have elapsed after the month before the month in which such individual attained age 65 or (if later) December 1970 and prior to the month in which such individual attained age 72, and

(B) with respect to which—

(i) such individual was a fully insured individual (as defined in section 214(a)), and

(ii) such individual either was not entitled to an old-age insurance benefit or suffered deductions under section 203(b) or 203(c) in amounts equal to the amount of such benefit.

(3) For purposes of applying the provisions of paragraph (1), a determination shall be made under paragraph (2) for each year, beginning with 1972, of the total number of an individual's increment months through the year for which the determination is made and the total so determined shall be applicable to such individual's old-age insurance benefits beginning with benefits for January of the year following the year for which such determination is made; except that the total number applicable in the case of an individual who attains age 72 after 1972 shall be determined through the month before the month in which he attains such age and shall be applicable to his old-age insurance benefit beginning with the month in which he attains such age.

(4) This subsection shall be applied after reduction under section 203(a).

(5) If an individual's primary insurance amount is determined under paragraph (3) of section 215(a) *as in effect in December 1978, or section 215(a) (1) (C) (III) as in effect thereafter*, and, as a result of this subsection, he would be entitled to a higher old-age insurance benefit if his primary insurance amount were determined under section 215(a) (*whether before, in, or after, December 1978*) without regard to such paragraph, such individual's old-age insurance benefit based upon his primary insurance amount determined under such paragraph shall be increased by an amount equal to the difference between such benefit and the benefit to which he would be entitled if his primary insurance amount were determined under such section without regard to such paragraph.

## Reduction of Insurance Benefits

### Maximum Benefits

**Sec. 203.** [(a) Whenever the total monthly benefits to which individuals are entitled under sections 202 and 223 for a month on the basis of the wages and self-employment income of an insured individual is greater than the amount appearing in column V of the table in (or deemed to be in) section 215(a) on the line on which appears in column IV such insured individual's primary insurance amount, such total of benefits shall be reduced to such amount; except that—

[(1) when any of such individuals so entitled would (but for the provisions of section 202(k) (2) (A)) be entitled to child's insurance benefits on the basis of the wages and self-employment income of one or more other insured individuals, such total of benefits shall not be reduced to less than the smaller of: (A) the sum of the maximum amounts of benefits payable on the basis of the wages and self-employment income of all such insured individuals, or (B) the last figure in column V of the table appearing in section 215(a), or] (a) (1) *In the case of an individual whose primary insurance amount has been computed or recomputed under section 215(a) (1) or (4), or 215(d), as in effect after December 1978, the total monthly benefits to which*



beneficiaries may be entitled under section 202 or 223 for a month on the basis of the wages and self-employment income of that insured individual shall, except as provided by paragraph (3) (but prior to any increases resulting from the application of paragraph (2) (A) (ii) (III) of section 215(i)) be reduced so as not to exceed—

(A) 150 percent of the individual's primary insurance amount up to the amount that is established with respect to this subparagraph by paragraph (2),

(B) 272 percent of the individual's primary insurance amount that exceeds the amount to which subparagraph (A) applies but does not exceed an amount established with respect to this subparagraph by paragraph (2),

(C) 134 percent of the individual's primary insurance amount that exceeds the amount to which subparagraph (B) applies but does not exceed an amount established with respect to this subparagraph by paragraph (2), and

(D) 175 percent of the individual's primary insurance amount that exceeds the amount established by paragraph (2) with respect to subparagraph (C).

Any such amount that is not a multiple of \$0.10 shall be increased to the next higher multiple of \$0.10.

(2) (A) For individuals who become eligible for old-age or disability insurance benefits or who die in the calendar year 1979 the amounts established with respect to subparagraphs (A), (B), and (C) of paragraph (1) are \$236, \$342, and \$449, respectively (not counting as the year of death or eligibility for purposes of this paragraph the year of the individual's death or eligibility if the individual was entitled to a disability insurance benefit for any of the 12 months immediately preceding the month of such death or eligibility, but counting instead, the year of eligibility for such disability insurance benefit).

(B) For individuals who become eligible for such benefits or who die in a calendar year after 1979 the amount established with respect to each of those subparagraphs shall equal the product of the corresponding amount established for 1979 by subparagraph (A) of this paragraph and the quotient obtained under subparagraph (B) (ii) of section 215(a) (1). Such product shall be rounded in like manner as is prescribed by section 215(a) (1) (B) (iii).

(C) In each calendar year after 1978 the Secretary shall publish in the Federal Register, on or before November 1, the formula applicable under this subsection to individuals who become eligible for old-age insurance benefits, become disabled, or die in the following calendar year.

(3) (A) When an individual to whom this subsection applies would (but for the provisions of section 202(k) (2) (A)) be entitled to child's insurance benefits for a month on the basis of the wages and self-employment income of one or more other individuals, the total of benefits shall not be reduced under this subsection to less than the smaller of—

(i) the sum of the maximum amounts of benefits payable on the basis of the wages and self-employment income of all of those individuals, or

(ii) an amount equal to the product of 1.75 and the primary insurance amount that would be computed under section 215

(a) (1) for that month with respect to average indexed monthly earnings equal to one-twelfth of the contribution and benefit base applicable to employees and the self-employed determined for that year under section 230.

[(2) when] (B) When two or more persons were entitled (without the application of section 202(j) (1) and section 223(b) to monthly benefits under section 202 or 223 for January 1971 or any prior month on the basis of the wages and self-employment income of such insured individual and the provisions of this subsection as in effect for any such month were applicable in determining the benefit amount of any persons on the basis of such wages and self-employment income, the total of benefits for any month after January 1971 shall not be reduced to less than the largest of—

[(A)] (i) the amount determined under this subsection without regard to this [paragraph] subparagraph,

[(B)] (ii) the largest amount which has been determined for any month under this subsection for persons entitled to monthly benefits on the basis of such insured individual's wages and self-employment income, or

[(C)] (iii) if any persons are entitled to benefits on the basis of such wages and self-employment income for the month before the effective month (after September 1972) of a general benefit increase under this title (as defined in section 215(i) (3)) or a benefit increase under the provisions of section 215(i), an amount equal to the sum of amounts derived by multiplying the benefit amount determined under this title (excluding any part thereof determined under section 202(w)) for the month before such effective month (including this subsection, but without the application of section 222(b), section 202(q), and subsections (b), (c), and (d) of this section), for each such person for such month, by a percentage equal to the percentage of the increase provided under such benefit increase (with any such increased amount which is not a multiple of \$0.10 being rounded to the next higher multiple of \$0.10);

[but in any such case (i) paragraph (1) of this subsection shall not be applied to such total of benefits after the application of subparagraph (B) or (C), and (ii) if section 202(k) (2) (A) was applicable in the case of any such benefits for a month, and ceases to apply for a month after such month, the provisions of subparagraph (B) or (C) shall be applied, for and after the month in which section 202(k) (2) (A) ceases to apply, as though paragraph (1) had not been applicable to such total of benefits for the last month for which subparagraph (B) or (C) was applicable, or] *but in any such case (I) subparagraph (A) of this paragraph shall not be applied to such total of benefits after the application of clause (ii) or (iii), and (II) if section 202(k) (2) (A) was applicable in the case of any such benefit for a month, and ceases to apply for a month after such month, the provisions of clause (ii) or (iii) shall be applied, for and after the month in which section 202(k) (2) (A) ceases to apply, as though subparagraph (A) of this paragraph had not been applicable to such total of benefits for the last month for which clause (ii) or (iii) was applicable.*

[(3) when] (C) When any of such individuals is entitled to monthly benefits as a divorced wife under section 202(b) or as a



surviving divorced wife under section 202(e) for any month, the benefit to which she is entitled on the basis of the wages and self-employment income of such insured individual for such month shall be determined without regard to this subsection, and the benefits of all other individuals who are entitled for such month to monthly benefits under section 202 on the wages and self-employment income of such insured individual shall be determined as if no such divorced wife or surviving divorced wife were entitled to benefits for such month.

【In any case in which benefits are reduced pursuant to the preceding provisions of this subsection, such reduction shall be made after any deductions under this section and after any deductions under section 222(b). Whenever a reduction is made under this subsection in the total of monthly benefits to which individuals are entitled for any month on the basis of the wages and self-employment income of an insured individual, each such benefit other than the old-age or disability insurance benefit shall be proportionately decreased; except that if such total of benefits for such month includes any benefit or benefits under section 202(d) which are payable solely by reason of section 216(h)(3), the reduction shall be first applied to reduce (proportionately where there is more than one benefit so payable) the benefits so payable (but not below zero).】

*(4) In any case in which benefits are reduced pursuant to the preceding provisions of this subsection, the reduction shall be made after any deductions under this section and after any deductions under section 222(b). Whenever a reduction is made under this subsection in the total of monthly benefits to which individuals are entitled for any month on the basis of the wages and self-employment income of an insured individual, each such benefit other than the old-age or disability insurance benefit shall be proportionately decreased.*

【(4) notwithstanding】 (5) *Notwithstanding* any other provision of law, when—

(A) two or more persons are entitled to monthly benefits for a particular month on the basis of the wages and self-employment income of an insured individual and (for such particular month) the provisions of this subsection 【and section 202(q)】 are applicable to such monthly benefits, and

(B) such individual's primary insurance amount is increased for the following month under any provision of this title, then the total of monthly benefits for all persons on the basis of such wages and self-employment income for such particular month, as determined under the provisions of this subsection, shall for purposes of determining the total monthly benefits for all persons on the basis of such wages and self-employment income for months subsequent to such particular month to be considered to have been increased by the smallest amount that would have been required in order to assure that the total of monthly benefits payable on the basis of such wages and self-employment income for any such subsequent month will not be less (after the application of the other provisions of this subsection and section 202(q)) than the total of monthly benefits (after the application of the other provisions of this subsection and section 202(q)) payable on the basis of such wages and self-employment income for such particular month【, or】.



[(5) whenever the monthly benefits of such individuals are based on an insured individual's primary insurance amount which is determined under section 215(a) (3) and such primary insurance amount does not appear in column IV of the table in (or deemed to be in) section 215(a), the applicable maximum amount in column V of such table shall be the amount in such column that appears on the line on which the next higher primary insurance amount appears in column IV, or, if larger, the largest amount determined for such persons under this subsection for any month prior to October 1972.]\*

(6) *In the case of any individual who is entitled for any month to benefits based upon the primary insurance amounts of two or more insured individuals, one or more of which primary insurance amounts were determined under section 215(a) or 215(d) as in effect (without regard to the table contained therein) prior to January 1979 and one or more of which primary insurance amounts were determined under section 215(a) (1) or (4), or 215(d), as in effect after December 1978, the total benefits payable to that individual and all other individuals entitled to benefits for that month based upon those primary insurance amounts shall be reduced to an amount equal to the product of 1.75 and the primary insurance amount that would be computed under section 215(a) (1) for that month with respect to average indexed monthly earnings equal to one-twelfth of the contribution and benefit base determined under section 230 for the year in which that month occurs.*

(7) *Subject to the preceding paragraph, this subsection, as in effect in December 1978, shall remain in effect with respect to a primary insurance amount computed under section 215 (a) or (d), as in effect (without regard to the table contained therein) in December 1978, except that a primary insurance amount so computed with respect to an individual who first becomes eligible for an old-age or disability insurance benefit (as defined in section 215(a) (2) (A)) or dies, after December 1978, shall, instead, be governed by this section, as in effect after December 1978.*

(8) *when—*

(A) *one or more persons were entitled (without the application of section 202(j) (1) and section 223(b)) to monthly benefits under section 202 or 223 for December 1977 on the basis of the wages and self-employment income of an individual;*

(B) *the benefit of at least one such person for January 1978 is increased by reason of the amendments made by section 109 of the Social Security Amendments of 1977; and*

(C) *the total amount of benefits to which all such persons are entitled under such section 202 are reduced under the provisions of this subsection (or would be so reduced except for the first sentence of section 203(a) (4)),*

*then the amount of the benefit to which each such person is entitled for months after December 1977 shall be increased (after such reductions are made under this subsection) to the amount such benefit would have been if the benefit of the person or persons referred to in subparagraph (B) had not been so increased.*

\* \* \* \* \*

\*Paragraph (5) is retained with respect to an individual who became eligible for a monthly benefit (as defined in section 215(a) (2) (A)) or died prior to 1979.

## Months to Which Earnings Are Charged

(f) For purposes of subsection (b)—

(1) The amount of an individual's excess earnings (as defined in paragraph (3)) shall be charged to months as follows: There shall be charged to the first month of such taxable year an amount of his excess earnings equal to the sum of the payments to which he and all other persons are entitled for such month under section 202 on the basis of his wages and self-employment income (or the total of his excess earnings if such excess earnings are less than such sum), and the balance, if any, of such excess earnings shall be charged to each succeeding month in such year to the extent, in the case of each such month, of the sum of the payments to which such individual and all other persons are entitled for such month under section 202 on the basis of his wages and self-employment income, until the total of such excess has been so charged. Where an individual is entitled to benefits under section 202(a) and other persons are entitled to benefits under section 202(b), (c), or (d) on the basis of the wages and self-employment income of such individual, the excess earnings of such individual for any taxable year shall be charged in accordance with the provisions of this subsection before the excess earnings of such persons for a taxable year are charged to months in such individual's taxable year. Notwithstanding the preceding provisions of this paragraph, but subject to section 202(s), no part of the excess earnings of an individual shall be charged to any month (A) for which such individual was not entitled to a benefit under this title, (B) in which such individual was age seventy-two or over, (C) in which such individual, if a child entitled to child's insurance benefits, has attained the age of 18, (D) for which such individual is entitled to widow's insurance benefits and has not attained age 65 (but only if she became so entitled prior to attaining age 60) or widower's insurance benefits and has not attained age 65 (but only if he became so entitled prior to attaining age 60), or (E) in which such individual did not engage in self-employment and did not render services for wages (determined as provided in paragraph (5) of this subsection) of more than [\$200 or] the exempt amount as determined under paragraph (8).

(2) As used in paragraph (1), the term "first month of such taxable year" means the earliest month in such year to which the charging of excess earnings described in such paragraph is not prohibited by the application of clauses (A), (B), (C), (D), and (E) thereof.

(3) For purposes of paragraph (1) and subsection (h), an individual's excess earnings for a taxable year shall be 50 per centum of his earnings for such year in excess of the product of [\$200 or] the exempt amount as determined under paragraph (8), multiplied by the number of months in such year, except that, in determining an individual's excess earnings for the taxable year in which he attains age 72, there shall be excluded any earnings of such individual for the month in which he attains such age and any subsequent month (with any net earnings or net loss from



self-employment in such year being prorated in an equitable manner under regulations of the Secretary). The excess earnings as derived under the preceding sentence, if not a multiple of 1, shall be reduced to the next lower multiple of \$1.

(4) For purposes of clause (E) of paragraph (1)—

(A) An individual will be presumed, with respect to any month, to have been engaged in self-employment in such month until it is shown to the satisfaction of the Secretary that such individual rendered no substantial services in such month with respect to any trade or business the net income or loss of which is includible in computing (as provided in paragraph (5) of this subsection) his net earnings or net loss from self-employment for any taxable year. The Secretary shall by regulations prescribe the methods and criteria for determining whether or not an individual has rendered substantial services with respect to any trade or business.

(B) An individual will be presumed, with respect to any month, to have rendered services for wages (determined as provided in paragraph (5) of this subsection) of more than **[\$200 or]** the exempt amount as determined under paragraph (8) until it is shown to the satisfaction of the Secretary that such individual did not render such services in such month for more than such amount.

(5)(A) An individual's earnings for a taxable year shall be (i) the sum of his wages for services rendered in such year and his net earnings from self-employment for such year, minus (ii) any net loss from self-employment for such year.

(B) For purposes of this section—

(i) an individual's net earnings from self-employment for any taxable year shall be determined as provided in section 211, except that paragraphs (1), (4), and (5) of section 211

(c) shall not apply and the gross income shall be computed by excluding the amounts provided by subparagraph (D), and

(ii) an individual's net loss from self-employment for any taxable year is the excess of the deductions (plus his distributive share of loss described in sections 702(a)(9) of the Internal Revenue Code of 1954) taken into account under clause

(i) over the gross income (plus his distributive share of income so described) taken into account under clause (i).

(C) For purposes of this subsection, an individual's wages shall be computed without regard to the limitations as to amounts of remuneration specified in subsections (a), (g)(2), (g)(3), (h)(2), and (j) of section 209; and in making such computation services which do not constitute employment as defined in section 210, performed within the United States by the individual as an employee or performed outside the United States in the active military or naval service of the United States, shall be deemed to be employment as so defined if the remuneration for such services is not includible in computing his net earnings or net loss from self-employment.



(D) In the case of an individual—

(i) who has attained the age of 65 on or before the last day of the taxable year, and

(ii) who shows to the satisfaction of the Secretary that he is receiving royalties attributable to a copyright or patent obtained before the taxable year in which he attained the age of 65 and that the property to which the copyright or patent relates was created by his own personal efforts,

there shall be excluded from gross income any such royalties.

(6) For purposes of this subsection, wages (determined as provided in paragraph (5) (C)) which, according to reports received by the Secretary, are paid to an individual during a taxable year shall be presumed to have been paid to him for services performed in such year until it is shown to the satisfaction of the Secretary that they were paid for services performed in another taxable year. If such reports with respect to an individual show his wages for a calendar year, such individual's taxable year shall be presumed to be a calendar year for purposes of this subsection until it is shown to the satisfaction of the Secretary that his taxable year is not a calendar year.

(7) Where an individual's excess earnings are charged to a month and the excess earnings so charged are less than the total of the payments (without regard to such charging) to which all persons are entitled under section 202 for such month on the basis of his wages and self-employment income, the difference between such total and the excess so charged to such month shall be paid (if it is otherwise payable under this title) to such individual and other persons in the proportion that the benefit to which each of them is entitled (without regard to such charging, without the application of section 202(k) (3), and prior to the application of section 203(a)) bears to the total of the benefits to which all of them are entitled.

(8) (A) Whenever the Secretary pursuant to section 215(i) increases benefits effective with the month of June following a cost-of-living computation quarter, he shall also determine and publish in the Federal Register on or before November 1 of the calendar year in which such quarter occurs a new exempt amount which shall be effective (unless such new exempt amount is prevented from becoming effective by subparagraph (C) of this paragraph) with respect to any individual's taxable year which ends after the calendar year in which such benefit increase is effective (or, in the case of an individual who dies during the calendar year after the calendar year in which the benefit increase is effective, with respect to such individual's taxable year which ends, upon his death, during such year).

(B) [The] *Except as provided in subparagraph (D), the exempt amount for each month of a particular taxable year shall be whichever of the following is the larger—*

(i) the exempt amount which was in effect with respect to months in the taxable year in which the determination under subparagraph (A) was made, or

(ii) the product of the exempt amount described in clause (i) and the ratio of (I) the average of the wages of all employees as reported to the Secretary of the Treasury for the calendar year preceding the calendar year in which the determination under subparagraph (A) was made to (II) the average of the wages of all employees as reported to the Secretary of the Treasury for the calendar year 1973, or, if later, the calendar year preceding the most recent calendar year in which an increase in the exempt amount was enacted or a determination resulting in such an increase was made under subparagraph (A), with such product, if not a multiple of \$10, being rounded to the next higher multiple of \$10 where such product is a multiple of \$5 but not of \$10 and to the nearest multiple of \$10 in any other case. For purposes of this clause (ii), the average of the wages for the calendar year 1978 (or any prior calendar year) shall, in the case of determinations made under subparagraph (A) prior to December 31, 1979, be deemed to be an amount equal to 400 per centum of the amount of the average of the taxable wages of all employees as reported to the Secretary for the first calendar quarter of such calendar year.

Whenever the Secretary determines that the exempt amount is to be increased in any year under this paragraph, he shall notify the House Committee on Ways and Means and the Senate Committee on Finance within 30 days after the close of the base quarter (as defined in section 215(i)(1)(A)) in such year of the estimated amount of such increase, indicating the new exempt amount, the actuarial estimates of the effect of the increase, and the actuarial assumptions and methodology used in preparing such estimates.

(C) Notwithstanding the determination of a new exempt amount by the Secretary under subparagraph (A) (and notwithstanding any publication thereof under such subparagraph or any notification thereof under the last sentence of subparagraph (B)), such new exempt amount shall not take effect pursuant thereto if during the calendar year in which such determination is made a law increasing the exempt amount is enacted.

(D) *Notwithstanding any other provision of this subsection, the exempt amount—*

*(i) shall be \$375 for each month of any taxable year ending after 1977 and before 1979, and*

*(ii) shall be \$500 for each month of any taxable year ending after 1978 and before 1980.*

\* \* \* \* \*

#### Report of Earnings to Secretary

(h)(1)(A) If an individual is entitled to any monthly insurance benefit under section 202 during any taxable year in which he has earnings or wages, as computed pursuant to paragraph (5) of subsection (f), in excess of the product of [\$200 or] the exempt amount as determined under subsection (f)(8) times the number of months in such year, such individual (or the individual who is in receipt of such benefit on his behalf) shall make a report to the Secretary of

his earnings (or wages) for such taxable year. Such report shall be made on or before the fifteenth day of the fourth month following the close of such year, and shall contain such information and be made in such manner as the Secretary may by regulations prescribe. Such report need not be made for any taxable year (i) beginning with or after the month in which such individuals attained the age of 72, or (ii) if benefit payments for all months (in such taxable year) in which such individual is under age 72 have been suspended under the provisions of the first sentence of paragraph (3) of this subsection. The Secretary may grant a reasonable extension of time for making the report of earnings required in this paragraph if he finds that there is valid reason for a delay, but in no case may the period be extended more than three months.

\* \* \* \* \*

### Computation of Primary Insurance Amount

**Sec. 215.** For the purposes of this title—

[(a) The primary insurance amount of an insured individual shall be determined as follows:

[(1) Subject to the conditions specified in subsections (b), (c), and (d) of this section and except as provided in paragraphs (2) and (3) of this subsection, such primary insurance amount shall be whichever of the following amounts is the largest:

[(A) the amount in column IV of the following table (or, if larger, the amount in column IV of the latest table deemed to be such table under subsection (i)(2)(D)) on the line on which in column III of such table appears his average monthly wage (as determined under subsection (b));

[(B) the amount in column IV of such table on the line on which in column II appears his primary insurance amount (as determined under subsection (c)); or

[(C) the amount in column IV of such table on the line on which in column I appears his primary insurance benefit (as determined under subsection (d)).

[(2) In the case of an individual who was entitled to a disability insurance benefit for the month before the month in which he died, became entitled to old-age insurance benefits, or attained age 65, such primary insurance amount shall be—

[(A) the amount in column IV of such table which is equal to the primary insurance amount upon which such disability insurance benefit is based; except that if such individual was entitled to a disability insurance benefit under section 223 for the month before the effective month of a new table (whether enacted by another law or deemed to be such table under subsection (i)(2)(D)) and in the following month became entitled to an old-age insurance benefit or he died in such following month, then his primary insurance amount for such following month shall be the amount in column IV of the new table on the line on which in column II of such table appears his primary insurance amount for the month before the effective month of the table (as determined under subsec-



tion (c)) instead of the amount in column IV equal to the primary insurance amount on which his disability insurance benefit is based. For purposes of this paragraph, the term "primary insurance amount" with respect to any individual means only a primary insurance amount determined under paragraph (1) (and such individual's benefits shall be deemed to be based upon the primary insurance amount as so determined) ; or

[(B) an amount equal to the primary insurance amount upon which such disability insurance benefit is based if such primary insurance amount was determined under paragraph (3).]

[(3) Such primary insurance amount shall be an amount equal to \$9.00 multiplied by the individual's years of coverage in excess of 10 in any case in which such amount is higher than the individual's primary insurance amount as determined under paragraph (1) or (2).]

[For purposes of paragraph (3), an individual's "years of coverage" is the number (not exceeding 30) equal to the sum of (i) the number (not exceeding 14 and disregarding any fraction) determined by dividing the total of the wages credited to him (including wages deemed to be paid prior to 1951 to such individual under section 217, compensation under the Railroad Retirement Act of 1937 prior to 1951 which is creditable to such individual pursuant to this title, and wages deemed to be paid prior to 1951 to such individual under section 231) for years after 1936 and before 1951 by \$900, plus (ii) the number equal to the number of years after 1950 each of which is a computation base year (within the meaning of subsection (b) (2) (C)) and in each of which he is credited with wages (including wages deemed to be paid to such individual under section 217, compensation under the Railroad Retirement Act of 1937 which is creditable to such individual pursuant to this title, and wages deemed to be paid prior to 1951 to such individual under section 229) and self-employment income of not less than 25 percent of the maximum amount which, pursuant to subsection (e), may be counted for such year.]

TABLE FOR DETERMINING PRIMARY INSURANCE AMOUNT AND MAXIMUM FAMILY BENEFITS  
BEGINNING JUNE 1977

(I) (Primary insurance benefit under 1939 Act, as modified)		(II) (Primary insurance amount effective for June 1976)	(III) (Average monthly wage)		(IV) (Primary insurance amount)	(V) (Maximum family benefits)
If an individual's primary insurance benefit (as determined under subsec. (d)) is—		Or his primary insurance amount (as determined under subsec. (e)) is—	Or his average monthly wage (as determined under subsec. (b)) is—		The amount referred to in the preceding paragraphs of this subsection shall be—	And the maximum amount of benefits payable (as provided in sec. 203(a)) on the basis of his wages and self-employment income shall be—
At least—	But not more than—		At least—	But not more than—		
\$16.21	\$16.20	\$107.90	77	78	\$114.30	\$171.50
16.85	16.84	109.60	79	80	116.10	174.20
17.61	17.60	112.10	81	82	118.80	178.30
18.41	18.40	114.20	83	84	121.00	181.60
19.25	19.24	116.20	85	86	123.10	184.70
20.01	20.00	118.70	87	88	125.80	188.70
20.65	20.64	120.90	89	90	128.10	192.20
21.29	21.28	122.80	91	92	130.10	195.20
21.89	21.88	125.30	93	94	132.70	199.10
22.29	22.28	127.40	95	96	135.00	202.50
22.69	22.68	129.50	97	98	137.20	205.80
23.09	23.08	131.60	99	100	139.40	209.10
23.45	23.44	134.00	101	102	142.00	213.00
23.77	23.76	136.20	103	104	144.30	216.50
24.21	24.20	138.90	105	106	147.10	220.70
24.61	24.60	140.80	107	108	149.20	223.90
25.01	25.00	143.20	109	110	151.70	227.60
25.49	25.48	145.80	111	112	154.50	231.80
25.93	25.92	148.30	113	114	157.00	235.50
26.35	26.34	150.50	115	116	159.40	239.20
26.41	26.40	152.80	117	118	161.90	242.90
26.95	26.94	155.00	119	120	164.20	246.30
27.47	27.46	157.40	121	122	166.70	250.20
28.01	28.00	159.80	123	124	169.30	254.00
28.69	28.68	162.20	125	126	171.80	257.80
29.26	29.25	164.40	127	128	174.10	261.80
29.69	29.68	166.80	129	130	176.50	264.80
30.37	30.36	169.10	131	132	179.10	268.70
30.93	30.92	171.50	133	134	181.70	272.60
31.57	31.56	173.90	135	136	183.90	275.90
32.01	32.00	176.10	137	138	185.50	279.80
32.61	32.60	178.40	139	140	188.00	283.50
33.21	33.20	180.70	141	142	191.40	287.10
33.89	33.88	183.10	143	144	194.00	291.00
34.51	34.50	185.30	145	146	196.30	294.50
35.01	35.00	187.80	147	148	198.90	298.50
35.81	35.80	190.00	149	150	201.30	302.00
36.41	36.40	192.50	151	152	203.90	306.10
37.09	37.08	194.90	153	154	206.40	309.70
37.61	37.60	197.10	155	156	208.80	313.20
38.21	38.20	199.70	157	158	211.50	317.30
39.13	39.12	202.00	159	160	214.00	321.00
39.69	39.68	203.90	161	162	216.00	324.00
40.34	40.33	205.50	163	164	218.70	328.10
41.13	41.12	208.80	165	166	221.20	331.80
41.77	41.76	211.40	167	168	223.90	335.90
42.45	42.44	213.90	169	170	226.30	339.50
43.21	43.20	216.30	171	172	228.10	343.70
43.77	43.76	218.30	173	174	231.20	348.40
44.45	44.44	220.40	175	176	233.50	355.60
44.89	44.88	222.20	177	178	236.40	361.40
-----	-----	225.40	179	180	238.70	368.50
-----	-----	227.30	181	182	240.80	375.50
-----	-----	229.10	183	184	243.70	381.20
-----	-----	232.20	185	186	246.10	388.40
-----	-----	234.80	187	188	248.70	395.40
-----	-----	237.00	189	190	251.00	401.10
-----	-----	239.50	191	192	253.50	408.30
-----	-----	241.90	193	194	256.20	415.80
-----	-----	243.90	195	196	258.30	421.10
-----	-----	246.50	197	198	261.00	428.30
-----	-----	248.80	199	200	263.50	435.40
-----	-----	250.90	201	202	265.90	441.10
-----	-----	253.20	203	204	268.50	448.20
-----	-----	255.60	205	206	271.10	455.40
-----	-----	257.90	207	208	273.20	461.10
-----	-----	260.40	209	210	275.80	468.20
-----	-----	262.60	211	212	278.00	475.30
-----	-----	265.20	213	214	281.00	481.20
-----	-----	267.20	215	216	283.00	488.10
-----	-----	269.60	217	218	285.00	495.20
-----	-----	272.20	219	220	288.00	501.40
-----	-----	274.30	221	222	290.60	508.10
-----	-----	276.90	223	224	293.30	515.30
-----	-----	279.10	225	226	296.00	521.00

(I) (Primary insurance benefit under 1939 Act, as modified)	(II) (Primary insurance amount effective for June 1978)	(III) (Average monthly wage)	(IV) (Primary insurance amount)	(V) (Maximum family benefits)
If an individual's primary insurance benefit (as determined under subsec. (d)) is—	Or his primary insurance amount (as determined under subsec. (c)) is—	Or his average monthly wage (as determined under subsec. (b)) is—	The amount referred to in the preceding paragraphs of this subsection shall be—	And the maximum amount of benefits pay- able (as pro- vided in sec. 203(a)) on the basis of his wages and self-employ- ment income shall be—
At least—	But not more than—	At least—	But not more than—	
.....	281.30	366	370	297.90
.....	283.80	371	375	300.60
.....	286.20	376	379	303.10
.....	288.60	380	384	305.70
.....	290.70	385	389	307.90
.....	293.00	390	393	310.30
.....	295.50	394	398	313.00
.....	297.80	399	403	315.40
.....	300.40	404	407	318.20
.....	302.20	408	412	321.20
.....	304.50	413	417	322.50
.....	306.70	418	421	324.80
.....	308.10	422	426	327.40
.....	311.20	427	431	329.60
.....	313.10	432	436	331.60
.....	315.70	437	440	334.40
.....	317.70	441	445	336.50
.....	319.80	446	450	338.70
.....	322.20	451	454	341.30
.....	324.50	455	459	343.50
.....	326.50	460	464	345.80
.....	328.50	465	468	347.90
.....	331.10	469	473	350.70
.....	332.90	474	478	352.60
.....	335.10	479	482	354.90
.....	337.40	483	487	357.40
.....	339.60	488	492	359.70
.....	341.70	493	496	361.90
.....	344.10	497	501	364.50
.....	346.10	502	506	366.60
.....	348.30	507	508	368.90
.....	350.40	511	515	371.10
.....	352.80	516	520	373.70
.....	354.80	521	524	375.80
.....	357.00	525	529	378.10
.....	359.50	530	534	380.80
.....	361.40	535	538	382.80
.....	363.60	539	543	385.10
.....	366.00	544	548	387.60
.....	368.10	549	553	389.90
.....	370.20	554	556	392.10
.....	371.90	557	560	393.90
.....	374.00	561	563	396.10
.....	376.00	564	567	398.20
.....	378.00	568	570	400.40
.....	379.80	571	574	402.30
.....	381.80	575	577	404.40
.....	383.50	578	581	406.20
.....	385.60	582	584	408.40
.....	387.30	585	588	410.20
.....	389.60	589	591	412.60
.....	391.50	592	595	414.60
.....	393.40	596	598	416.70
.....	395.30	599	602	418.70
.....	397.20	603	605	420.70
.....	399.20	608	609	422.80
.....	401.20	610	612	424.90
.....	403.10	613	616	426.90
.....	405.00	617	620	428.90
.....	406.90	621	623	431.00
.....	408.80	624	627	433.00
.....	410.80	628	630	435.10
.....	412.70	631	634	437.10
.....	414.70	635	637	439.20
.....	416.80	638	641	441.40
.....	418.50	642	644	443.20
.....	420.50	645	648	445.40
.....	422.40	649	652	447.40
.....	423.60	653	656	448.60
.....	424.80	657	660	449.90
.....	426.20	663	665	451.50
.....	427.80	666	670	453.10
.....	429.40	671	675	454.80
.....	430.90	678	680	456.40
.....	432.40	681	685	458.00
.....	434.10	688	690	459.80
.....	435.50	691	695	461.20
.....	437.00	700	702	462.80
.....	438.60	701	705	464.50
.....	440.10	706	710	466.10
.....	441.60	715	715	467.70
.....	443.20	716	720	469.40
.....	444.70	721	725	471.00
.....	446.20	726	730	472.60
.....				528.10
.....				533.10
.....				541.10
.....				548.20
.....				555.20
.....				560.10
.....				568.10
.....				575.30
.....				580.80
.....				588.00
.....				595.10
.....				600.80
.....				607.30
.....				615.10
.....				622.20
.....				625.00
.....				628.80
.....				632.30
.....				635.00
.....				638.50
.....				642.00
.....				645.10
.....				648.60
.....				652.20
.....				655.10
.....				658.70
.....				662.30
.....				665.10
.....				668.60
.....				672.10
.....				675.10
.....				678.60
.....				682.30
.....				684.90
.....				688.60
.....				692.10
.....				695.00
.....				698.00
.....				702.80
.....				705.70
.....				707.80
.....				710.70
.....				712.90
.....				715.70
.....				717.80
.....				720.60
.....				722.90
.....				725.60
.....				727.80
.....				730.70
.....				732.80
.....				735.60
.....				737.60
.....				740.70
.....				742.80
.....				745.50
.....				747.80
.....				750.70
.....				753.50
.....				755.60
.....				758.50
.....				761.20
.....				764.90
.....				768.50
.....				772.20
.....				775.60
.....				779.40
.....				782.80
.....				785.00
.....				787.20
.....				791.10
.....				792.90
.....				795.60
.....				798.50
.....				801.40
.....				804.10
.....				807.10
.....				809.90
.....				812.70
.....				815.50
.....				818.30
.....				821.20
.....				824.00
.....				826.90



(I) (Primary insurance benefit under 1939 Act, as modified)		(II) (Primary insurance amount effective for June 1976)	(III) (Average monthly wage)		(IV) (Primary insurance amount)	(V) (Maximum family benefits)
If an individual's primary insurance benefit (as determined under subsec. (d)) is—		Or his primary insurance amount (as determined under subsec. (c)) is—	Or his average monthly wage (as determined under subsec. (b)) is—		The amount referred to in the preceding paragraphs of this subsection shall be—	And the maximum amount of benefits pay- able (as pro- vided in sec. 206(a)) on the basis of his wages and self-employ- ment income shall be—
At least—	But not more than—		At least—	But not more than—		
447.70		751	735		474.20	829.80
449.30		736	740		475.90	832.50
450.80		741	745		477.40	835.50
452.20		746	750		478.90	838.20
453.60		751	755		480.40	840.70
454.90		756	760		481.80	843.00
456.20		761	765		483.20	845.40
457.50		766	770		484.50	847.80
458.70		771	775		485.80	850.10
460.00		776	780		487.20	852.40
461.30		781	785		488.50	854.80
462.50		786	790		489.80	857.10
463.70		791	795		491.10	859.50
465.00		796	800		492.50	861.90
466.40		801	805		494.00	864.30
467.70		806	810		495.30	866.60
469.00		811	815		496.70	869.10
470.20		816	820		498.00	871.30
471.50		821	825		499.40	873.80
472.80		826	830		500.70	876.10
474.00		831	835		502.00	878.50
475.20		836	840		503.30	880.80
476.50		841	845		504.70	883.30
477.80		846	850		506.00	885.40
479.20		851	855		507.50	887.90
480.40		856	860		508.80	890.20
481.70		861	865		510.20	892.60
483.00		866	870		511.50	895.00
484.30		871	875		512.90	897.30
485.60		876	880		514.10	899.70
486.90		881	885		515.50	902.10
488.00		886	890		516.80	904.40
489.30		891	895		518.20	907.00
490.60		896	900		519.60	909.20
491.90		901	905		521.00	911.60
493.20		906	910		522.30	914.00
494.50		911	915		523.70	916.30
495.80		916	920		525.10	918.50
496.90		921	925		526.30	921.10
498.20		926	930		527.60	923.30
499.50		931	935		528.90	925.70
500.80		936	940		530.40	928.10
502.00		941	945		531.70	930.50
503.30		946	950		533.00	932.80
504.70		951	955		534.50	935.30
506.00		956	960		535.90	937.60
507.30		961	965		537.20	939.90
508.60		966	970		538.40	942.30
509.70		971	975		539.80	944.70
511.00		976	980		541.20	946.90
512.30		981	985		542.60	949.30
513.50		986	990		543.80	951.70
514.80		991	995		545.20	954.10
516.10		996	1000		546.60	956.40
517.20		1001	1005		547.80	958.40
518.30		1006	1010		549.90	960.70
519.50		1011	1015		550.20	962.70
520.70		1016	1020		551.50	965.00
521.80		1021	1025		552.60	967.00
522.90		1026	1030		553.80	969.20
524.10		1031	1035		555.10	971.30
525.20		1036	1040		556.20	973.40
526.40		1041	1045		557.50	975.60
527.60		1046	1050		558.80	977.70
528.60		1051	1055		559.80	979.70
529.80		1056	1060		561.10	982.00
531.00		1061	1065		562.40	984.00
532.20		1066	1070		563.60	986.30
533.30		1071	1075		564.80	988.30
534.40		1076	1080		566.00	990.30
535.60		1081	1085		567.30	992.50
536.70		1086	1090		568.40	994.70
537.90		1091	1095		569.60	996.90
539.10		1096	1100		571.00	999.00
540.10		1101	1105		572.00	1001.00
541.30		1106	1110		573.30	1003.20
542.50		1111	1115		574.50	1005.30
543.60		1116	1120		575.70	1007.60
544.80		1121	1125		577.00	1009.80
545.90		1126	1130		578.20	1011.80
547.10		1131	1135		579.40	1013.80
548.20		1136	1140		580.60	1016.10
549.40		1141	1145		581.90	1018.20
550.60		1146	1150		583.10	1020.30
551.60		1151	1155		584.20	1022.30
552.80		1156	1160		585.50	1024.50
554.00		1161	1165		586.60	1026.60
555.10		1166	1170		587.90	1028.90
556.30		1171	1175		589.20	1030.90

(I) (Primary insurance benefit under 1939 Act, as modified)		(II) (Primary insurance amount effective for June 1976)	(III) (Average monthly wage)		(IV) (Primary insurance amount)	(V) (Maximum family benefits)
If an individual's primary insur- ance benefit (as determined under subsec. (d)) is—		Or his primary insurance amount (as determined under subsec. (c)) is—	Or his average monthly wage (as determined under subsec. (b)) is—		The amount referred to in the preceding paragraphs of this subsection shall be—	And the maximum amount of benefits pay- able (as pro- vided in sec. 205(a)) on the basis of his wages and self-employ- ment income shall be—
At least—	But not more than—		At least—	But not more than—		
-----	-----	557.40	1176	1180	590.30	1033.00
-----	-----	558.40	1181	1185	591.40	1034.90
-----	-----	559.50	1186	1190	592.60	1036.90
-----	-----	560.60	1191	1195	593.70	1038.90
-----	-----	561.60	1196	1200	594.80	1040.90
-----	-----	562.70	1201	1205	595.90	1042.80
-----	-----	563.80	1206	1210	597.10	1044.90
-----	-----	564.80	1211	1215	598.20	1046.80
-----	-----	565.90	1216	1220	599.30	1048.80
-----	-----	566.90	1221	1225	600.40	1050.70
-----	-----	568.00	1226	1230	601.60	1052.70
-----	-----	569.10	1231	1235	602.70	1054.60
-----	-----	570.10	1236	1240	603.80	1056.70
-----	-----	571.20	1241	1245	605.00	1058.60
-----	-----	572.30	1246	1250	606.10	1060.60
-----	-----	573.30	1251	1255	607.20	1062.50
-----	-----	574.40	1256	1260	608.30	1064.60
-----	-----	575.50	1261	1265	609.50	1066.50
-----	-----	576.50	1266	1270	610.60	1068.50
-----	-----	577.60	1271	1275	611.70	1070.40
-----	-----	578.60	1276	1280	612.80	1072.40
-----	-----	579.60	1281	1285	613.80	1074.20
-----	-----	580.60	1286	1290	614.90	1076.10
-----	-----	581.60	1291	1295	616.00	1077.90
-----	-----	582.60	1296	1300	617.00	1079.80
-----	-----	583.60	1301	1305	618.10	1081.60
-----	-----	584.60	1306	1310	619.10	1083.50
-----	-----	585.60	1311	1315	620.20	1085.30
-----	-----	586.60	1316	1320	621.30	1087.20
-----	-----	587.60	1321	1325	622.30	1089.00
-----	-----	588.60	1326	1330	623.40	1090.90
-----	-----	589.60	1331	1335	624.40	1092.70
-----	-----	590.60	1336	1340	625.50	1094.60
-----	-----	591.60	1341	1345	626.60	1096.40
-----	-----	592.60	1346	1350	627.60	1098.30
-----	-----	593.60	1351	1355	628.70	1100.10
-----	-----	594.60	1356	1360	629.70	1102.00
-----	-----	595.60	1361	1365	630.80	1103.80
-----	-----	596.60	1366	1370	631.80	1105.80
-----	-----	597.60	1371	1375	632.90	1107.60

(a) (1) (A) *The primary insurance amount of an individual (except as otherwise provided in this section) is equal to the sum of—*

(i) *92 per centum of the individual's average indexed monthly earnings (determined under subsection (b)) up to the amount established for purposes of this clause by subparagraph (B),*

(ii) *33 per centum of the portion of the individual's average indexed monthly earnings which exceeds the amount established for purposes of clause (i) but does not exceed the amount established for purposes of this clause by subparagraph (B), and*

(iii) *16 per centum of the individual's average indexed monthly earnings to the extent that they exceed the amount established for purposes of clause (ii), rounded in accordance with subsection (g), and thereafter increased as provided in subsection (i).*

(B) (i) *In the case of an individual who becomes eligible for old-age or disability insurance benefits, or who dies before becoming so eligible, in the calendar year 1979, the amounts established with respect to subparagraphs (A) (i) and (A) (ii) are \$180 and \$1,075, respectively.*

(ii) *In the case of an individual who becomes eligible for old-age or disability insurance benefits, or who dies before becoming so eligible, in a calendar year after 1979, each of the amounts established with respect to subparagraphs (A) (i) and (A) (ii) shall equal the product of the corresponding amount established with respect to the calendar year 1979 under clause (i) of this subparagraph, and the quotient obtained by dividing—*

(I) *the average of the wages (as defined in section 230(e)) of all employees as reported to the Secretary of the Treasury for the second calendar year preceding the calendar year for which the determination is made, by*

(II) *the average of the wages (as so defined) of all employees as reported to the Secretary of the Treasury for the calendar year 1977.*

(iii) *The amounts established under clause (ii) shall be rounded to the nearest \$1.00, except that an amount that is a multiple of \$0.50 but not a multiple of \$1.00 shall be rounded to the next higher \$1.00.*

(C) (i) *No primary insurance amount computed under subparagraph (A) may be less than the greatest of—*

(I) *the amount in the first line of column IV in the table of benefits contained (or deemed to be contained) in this subsection as in effect in December 1978,*

(II) *the amount determined under subsection (i) (except subclause (III) of this clause) with respect to this subparagraph, or*

(III) *an amount equal to \$9 multiplied by the individual's years of coverage in excess of 10.*

(ii) *For purposes of the preceding clause, the term "years of coverage" means the number (not exceeding 30) equal to the sum of (I) the number (not exceeding 14 and disregarding any fraction) determined by dividing (a) the total of the wages credited to the individual (including wages deemed to be paid prior to 1951 to such individual under section 217, compensation under the Railroad Retirement Act of 1937 prior to 1951 which is creditable to such individual pursuant to this title, and wages deemed to be paid prior to 1951 to such individual under section 231) for years after 1936 and before 1951 by (b)*



\$900, plus (II) the number equal to the number of years after 1950 each of which is a computation base year (within the meaning of subsection (b) (2) (B) (ii)) and in each of which he is credited with wages (including wages deemed to be paid to such individual under section 217, and compensation under the Railroad Retirement Act of 1937 or the Railroad Retirement Act of 1974 which is creditable to such individual pursuant to this title, and wages deemed to be paid to such individual under section 229) and self-employment income of not less than 25 percent of the maximum amount which, pursuant to subsection (e), may be counted for such year.

(D) In each calendar year after 1978 the Secretary shall publish in the Federal Register, on or before November 1, the formula for computing benefits under this paragraph and for adjusting wages and self-employment income under subsection (b) (3) in the case of an individual who becomes eligible for an old-age insurance benefit, or (if earlier) becomes eligible for a disability insurance benefit or dies, in the following year, and the average wages (as described by subclause (I) of subparagraph (B) (ii)) on which that formula is based. With the initial publication required by this subparagraph, the Secretary shall also publish in the Federal Register the average wages (as so described) for each year after calendar year 1950.

(2) (A) A year shall not be counted as a year of an individual's death or eligibility for purposes of this subsection or subsection (i) in any case where such individual was entitled to a disability insurance benefit for any of the 12 months immediately preceding the month of such death or eligibility (but there shall be counted instead the year of the individual's eligibility for the disability insurance benefit to which he was entitled in such 12-month period).

(B) In the case of an individual who was entitled to a disability insurance benefit for any of the 12 months before the month in which he became entitled to an old-age insurance benefit, became reentitled to a disability insurance benefit, or died, the primary insurance amount for determining any benefit attributable to that entitlement, reentitlement, or death is the greater of—

(i) the primary insurance amount upon which that disability insurance benefit was based, increased in the case of the individual who so became entitled, became reentitled, or died, by each general benefit increase (as defined in subsection (i) (3)) and each increase provided under subsection (i) (2) that would have applied to that primary insurance amount had the individual remained entitled to that disability insurance benefit until the month in which he became entitled, reentitled, or died, or

(ii) the amount commuted under paragraph (1) (C).

(C) In the case of an individual who was entitled to a disability insurance benefit for any month, and with respect to whom a primary insurance amount is required to be computed at any time after the close of the period of the individual's disability (whether because of that individual's subsequent entitlement to old-age insurance benefits, or to a disability insurance benefit based upon a subsequent period of disability, or death), the primary insurance amount so computed may in no case be less than the primary insurance amount on the basis of which he most recently received a disability insurance benefit.

(3) (A) *Except as otherwise provided by paragraph (4), paragraph (1) applies to—*

(i) *an individual who was not eligible for an old-age insurance benefit prior to January 1979 and who in that or any succeeding month—*

(I) *becomes eligible for that benefit,*

(II) *becomes eligible for a disability insurance benefit, or*

(III) *dies, and*

(ii) *an individual described in clause (i) who was eligible for a disability insurance benefit for a month prior to January 1979 (except to the extent that paragraph (4) (A) otherwise provides).*

(B) *For the purposes of this title, an individual is deemed to be eligible for an old-age insurance benefit beginning in the month in which he attains age 62, or for a disability insurance benefit for months beginning in the month in which a period of disability began as described in section 216(i) (2) (C), unless less than 12 months have elapsed since the termination of a prior period of disability in which case the month of eligibility with respect to the prior period of disability shall be considered the month of eligibility.*

(4) *Paragraph (1) does not apply to the computation or recomputation of a primary insurance amount for—*

(A) *an individual who was eligible for a disability insurance benefit for a month prior to January 1979 unless, prior to the month in which there occurs the event described in clause (i) (I), (i) (II), or (i) (III) of paragraph (3) (A), there occurs a period of at least 12 consecutive months for which he was not entitled to a disability insurance benefit, or*

(B) (i) *an individual who had wages or self-employment income credited for a year before 1979 and who was not eligible for an old-age or disability insurance benefit, or did not die, prior to January 1979, if in the year for which the computation or recomputation would be made the individual's primary insurance amount would be greater if computed or recomputed—*

(I) *under section 215(a), as in effect in December 1978, in the case of an individual who becomes eligible for an old-age insurance benefit prior to 1984, or*

(II) *as provided by section 215(d), in the case of an individual to whom such section applies.*

(ii) *For purposes of determining under clause (i) which amount is the greater—*

(I) *the table of benefits in effect in December 1978 shall apply without regard to any increase in that table which becomes effective (in accordance with subsection (i) (4)) for years after 1978 except as provided in subsection (i) (2) (A) (iii), and*

(II) *the individual's average monthly wage shall be computed as provided by subsection (b) (4).*

(5) *With respect to computing the primary insurance amount, after December 1978, of an individual to whom paragraph (1) does not apply (except in the case of an individual described in paragraph (4) (B)), this section as in effect in December 1978 remains in effect.*



## Average Monthly Wage

[(b)(1) For the purposes of column III of the table appearing in subsection (a) of this section, an individual's "average monthly wage" shall be the quotient obtained by dividing—

[(A) the total of his wages paid in and self-employment income credited to his "benefit computation years" (determined under paragraph (2)), by

[(B) the number of months in such years.

[(2)(A) The number of an individual's "benefit computation years" shall be equal to the number of elapsed years (determined under paragraph (3) of this subsection), reduced by five, except that the number of an individual's benefit computation years shall in no case be less than two.

[(B) An individual's "benefit computation years" shall be those computation base years, equal in number to the number determined under subparagraph (A), for which the total of his wages and self-employment income is the largest.

[(C) For purposes of subparagraph (B), "computation base years" include only calendar years in the period after 1950 and prior to the earlier of the following years—

[(i) the year in which occurred (whether by reason of section 202(j)(1) or otherwise) the first month for which the individual was entitled to old-age insurance benefits, or

[(ii) the year succeeding the year in which he died.

Any calendar year all of which is included in a period of disability shall not be included as a computation base year.

[(3) For purposes of paragraph (2), the number of an individual's elapsed years is the number of calendar years after 1950 (or, if later, the year in which he attained age 21) and before the year in which he died, or if it occurred earlier but after 1960, the year in which he attained age 62. For purposes of the preceding sentence, any calendar year any part of which was included in a period of disability shall not be included in such number of calendar years.

[(4) The provisions of this subsection shall be applicable only in the case of an individual—

[(A) who becomes entitled to benefits under section 202(a) or section 223 in or after the month in which a new table that appears in (or is deemed by subsection (i)(2)(D) to appear in) section (a) becomes effective; or

[(B) who dies in or after the month in which such table becomes effective without being entitled to benefits under section 202(a) or section 223; or

[(C) whose primary insurance amount is required to be recomputed under subsection (f)(2).]

(b)(1) *The amount of an individual's average indexed monthly earnings is equal to the quotient obtained by dividing—*

(A) *the total (after adjustment under paragraph (3) of his wages paid in and self-employment income credited to his benefit computation years (determined under paragraph (2)), by*

(B) *the number of months in those years.*

(2)(A) *The number of an individual's benefit computation years equals the number of elapsed years, reduced by five, except that the*



number of an individual's benefit computation years may not be less than two.

(B) For purposes of this subsection—

(i) the term "benefit computation years" means, in the case of any individual those computation base years, equal in number to the number determined under subparagraph (A) of this paragraph, for which the total of the individual's wages and self-employment income, after adjustment under paragraph (3), is the largest;

(ii) the term "computation base years" means, in the case of any individual the calendar years after 1950 and prior to the earlier of—

(I) in the case of an individual entitled to old-age insurance benefits, the year in which occurred (whether by reason of section 202(j)(1) or otherwise) the first month of that entitlement;

(II) in the case of an individual who has died, the year succeeding the year of his death;

except that such term excludes any calendar year entirely included in a period of disability; and

(iii) the term "number of elapsed years" means, in the case of any individual except as otherwise provided by section 104(j) of the Social Security Amendments of 1972 (Public Law 92-603), the number of calendar years after 1950 (or, if later, the year in which the individual attained age 21) and before the year in which the individual died, or, if it occurred after 1960, the year in which he attained age 62; except that such term excludes any calendar year any part of which is included in a period of disability.

(3) (A) Except as provided by subparagraph (B), the wages paid in and self-employment income credited to each of an individual's computation base years for purposes of the selection therefrom of benefit computation years under paragraph (2) is deemed equal to the product of—

(i) the wages and self-employment income credited to such year, and

(ii) the quotient obtained by dividing—

(I) the average of the wages (as defined in section 230(e)) of all employees as reported to the Secretary of the Treasury for the second calendar year (after 1976) preceding the earliest of the year of the individual's death, eligibility for an old-age insurance benefit, or eligibility for a disability insurance benefit (except that the year in which the individual dies, or becomes eligible, shall not be considered as such year if the individual was entitled to disability insurance benefits for any month in the 12-month period immediately preceding such death or eligibility) but there shall be counted instead the year of the individual's eligibility for the disability insurance benefit to which he was entitled in such 12-month period) by

(II) the average of the wages (as so defined) of all employees as reported to the Secretary of the Treasury for the computation base year for which the determination is made.

(B) *Wages paid in or self-employment income credited to an individual's computation base year—*

(i) *which occurs after the second calendar year specified in subparagraph (A) (i), where applicable, or*

(ii) *in a year which under subsection (f) (2) (C) is considered to be the last year of the period specified in subsection (b) (2)*

(B) (ii),

*are available for use in determining an individual's benefit computation years, but without applying subparagraph (A) of this paragraph.*

(4) *In determining the average monthly wage of an individual whose primary insurance amount is computed (after 1978) under section 215(a) or 215(d) as in effect (except with respect to the table contained therein) in December 1978, by reason of subsection (a) (4) (B), this subsection as in effect in December 1978 remains in effect, except that paragraph (2) (C) (as then in effect) is deemed to provide that "computation base years" include only calendar years in the period after 1950 (or 1936, if applicable) and prior to the year in which occurred the first month for which the individual was eligible (as defined in subsection (a) (3) (B) of this section as in effect in January 1979) for an old-age or disability insurance benefit, or died. Any calendar year all of which is included in a period of disability shall not be included as a computation base year.*

(5) [Repealed].

#### Primary Insurance Amount Under Prior Provisions

[(c) (1) For the purpose of column II of the latest table that appears in (or is deemed to appear in) subsection (a) of this section, an individual's primary insurance amount shall be computed on the basis of the law in effect prior to the month in which the latest such table became effective.

[(2) The provisions of this subsection shall be applicable only in the case of an individual who became entitled to benefits under section 202(a) or section 223, or who died, before such effective month.]

(c) *This subsection, as in effect in December 1978, shall remain in effect with respect to an individual to whom subsection (a) (1) does not apply by reason of the individual's eligibility for an old-age insurance or disability insurance benefit, or the individual's death, prior to 1979.*

#### Primary Insurance Benefit Under 1939 Act

[(d) (1) For purposes of column I of the table appearing in subsection (a) of this section, an individual's primary insurance benefit shall be computed as follows:

[(A) The individual's average monthly wage shall be determined as provided in subsection (b) (but without regard to paragraph (4) thereof) of this section, except that for purposes of paragraph (2) (C) and (3) of such subsection, 1936 shall be used instead of 1950.

[(B) For purposes of subparagraphs (B) and (C) of subsection (b) (2), an individual whose total wages prior to 1951 (as defined in subparagraph (C) of this subsection)—



[(i) do not exceed \$27,000 shall be deemed to have been paid such wages in equal parts in nine calendar years after 1936 and prior to 1951;

[(ii) exceed \$27,000 and are less than \$42,000 shall be deemed to have been paid (I) \$3,000 in each of such number of calendar years after 1936 and prior to 1951 as is equal to the integer derived by dividing such total wages by \$3,000, and (II) the excess of such total wages over the product of \$3,000 times such integer, in an additional calendar year in such period; or

[(iii) are at least \$42,000 shall be deemed to have been paid \$3,000 in each of the fourteen calendar years after 1936 and prior to 1951.]

(d) (1) *For the purpose of column I of the table appearing subsection (a) of this section, as that subsection was in effect in December 1977, an individual's primary insurance benefit shall be computed as follows:*

(A) *The individual's average monthly wage shall be determined as provided in subsection (b) of this section, as in effect in December 1977 (but without regard to paragraph (4) thereof), except that for purposes of paragraphs (2) (C) and (3) of that subsection (as so in effect), 1936 shall be used instead of 1950.*

(B) *For purposes of subparagraphs (B) and (C) of subsection (b) (2) (as so in effect), the total wages prior to 1951 (as defined in subparagraph (C) of this paragraph) of an individual who attained age 21 after 1936 and prior to 1951 shall be divided by the number of years (hereinafter in this subparagraph referred to as the "division") elapsing after the year in which the individual attained age 21 and prior to the earlier of 1951 or the year of the individual's death. The quotient so obtained is deemed to be the individual's wages credited for each of the years included in the divisor except—*

(i) *if the quotient exceeds \$3,000, only \$3,000 is deemed to be the individual's wages for each of the years included in the divisor, and the remainder of the individual's total wages prior to 1951 (I) if less than \$3,000, is deemed credited to the year immediately preceding the earliest year used in the divisor, or (II) if \$3,000 or more, is deemed credited, in \$3,000 increments, to the year in which the individual attained age 21 and to each year consecutively preceding that year, with any remainder less than \$3,000 credited to the year prior to the earliest year to which a full \$3,000 increment was credited; and*

(ii) *no more than \$42,000 may be taken into account, for purposes of this subparagraph, as total wages after 1936 and prior to 1951.*

(C) *For the purposes of subparagraph (B), "total wages prior to 1951" with respect to an individual means the sum of (i) remuneration credited to such individual prior to 1951 on the records of the Secretary, (ii) wages deemed paid prior to 1951 to such individual under section 217, (iii) compensation under the Railroad Retirement Act of 1937 prior to 1951 creditable to him pur-*



suant to this title, and (iv) wages deemed paid prior to 1951 to such individual under section 231.

**[(D)** The individual's primary insurance benefits shall be 45.6 per centum of the first \$50 of his average monthly wage as computed under this subsection, plus 11.4 per centum of the next \$200 of such average monthly wage.]

*(D) The individual's primary insurance benefits shall be 40 per centum of the first \$50 of his average monthly wage as computed under this subsection, plus 10 per centum of the next \$200 of his average monthly wage; increased by 1 per centum for each increment year. The number of increment years is the number, not more than 14 nor less than 4, that is equal to the individual's total wages prior to 1951 divided by \$1,650 (disregarding any fraction).*

(2) The provisions of this subsection shall be applicable only in the case of an individual—

(A) with respect to whom at least one of the quarters elapsing prior to 1951 is a quarter of coverage;

(B) except as provided in paragraph (3), who attained age 22 after 1950 and with respect to whom less than six of the quarters elapsing after 1950 are quarters of coverage, or who attained such age before 1951; and

(C)(i) who becomes entitled to benefits under section 202(a) or 223 after the date of the enactment of the Social Security Amendments of 1967, or

(ii) who dies after such date without being entitled to benefits under section 202(a) or 223, or

(iii) whose primary insurance amount is required to be recomputed under section 215(f) (2) or (6), or section 231.

(3) The provisions of this subsection as in effect prior to the enactment of the Social Security Amendments of 1967 shall be applicable in the case of an individual[—]

**[(A)** who attained age 21 after 1936 and prior to 1951, or]

**[(B)]** who had a period of disability which began prior to 1951, but only if the primary insurance amount resulting therefrom is higher than the primary insurance amount resulting from the application of this section (as amended by the Social Security Amendments of 1967) and section 220.

*(4) The provisions of this subsection as in effect in December 1977 shall be applicable to individuals who become eligible for old-age insurance or disability insurance benefits or die prior to 1978.*

#### Certain Wages and Self-Employment Income Not To Be Counted

(e) For the purposes of subsections (b) and (d)—

(1) in computing an individual's **[average monthly wage]** *average indexed monthly earnings or, in the case of an individual whose primary insurance amount is computed under section 215(a) as in effect prior to January 1979, average monthly wage*, there shall not be counted the excess over \$3,600 in the case of any calendar year after 1950 and before 1955, the excess over \$4,200 in the case of any calendar year after 1954 and before 1959,

the excess over \$4,800 in the case of any calendar year after 1958 and before 1966, the excess over \$6,600 in the case of any calendar year after 1965 and before 1968, the excess over \$7,800 in the case of any calendar year after 1967 and before 1972, the excess over \$9,000 in the case of any calendar year after 1971 and before 1973, the excess over \$10,800 in the case of any calendar year after 1972 and before 1974, the excess over \$13,200 in the case of any calendar year after 1973 and before 1975, and the excess over an amount equal to the contribution and benefit base (as determined under section 230) in the case of any calendar year after 1974 with respect to which such contribution and benefit base is effective (*before the application, in the case of average indexed monthly earnings, of subsection (b) (3) (A)*) of (A) the wages paid to him in such year, plus (B) the self-employment income credited to such year (as determined under section 212); and

(2) if an individual's **[average monthly wage]** *average indexed monthly earnings or, in the case of an individual whose primary insurance amount is computed under section 215(a) as in effect prior to January 1979, average monthly wage*, computed under subsection (b) or for the purposes of subsection (d) is not a multiple of \$1, it shall be reduced to the next lower multiple of \$1.

#### Recomputation of Benefits

(f) (1) After an individual's primary insurance amount has been determined under this section, there shall be no recomputation of such individual's primary insurance amount except as provided in this subsection or, in the case of a World War II veteran who died prior to July 27, 1954, as provided in section 217(b).

[(2) If an individual has wages or self-employment income for a year after 1965 for any part of which he is entitled to old-age insurance benefits, the Secretary shall, at such time or times and within such period as he may by regulations prescribe, recompute such individual's primary insurance amount with respect to each such year. Such recomputation shall be made as provided in subsections (a) (1) (A) and (C) and (a) (3) as though the year with respect to which such recomputation is made is the last year of the period specified in subsection (b) (2) (C). A recomputation under this paragraph with respect to any year shall be effective—

[(A) in the case of an individual who did not die in such year, for monthly benefits beginning with benefits for January of the following year; or

[(B) in the case of an individual who died in such year, for monthly benefits beginning with benefits for the month in which he died.]

(2) (A) *If an individual has wages or self-employment income for a year after 1978 for any part of which he is entitled to old-age or disability insurance benefits, the Secretary shall, at such time or times and within such period as he may by regulation prescribe, recompute the individual's primary insurance amount for that year.*

(B) *For the purpose of applying subparagraph (A) of subsection (a) (1) to the average indexed monthly earnings of an individual to*

whom that subsection applies and who receives a recomputation under this paragraph, there shall be used, in lieu of the amounts of those earnings established by clauses (i) and (ii) of subparagraph (B) of that subsection, the amounts that were (or, in the case of an individual described in subsection (a)(4)(B), would have been) used in the computation of the individual's primary insurance amount prior to the application of this subsection.

(C) A recomputation under this paragraph shall be made as provided in subsection (a)(1) as though the year with respect to which it is made is the last year of the period specified in subsection (b)(2)(B)(ii), and subsection (b)(3)(A) shall apply with respect to any such recomputation as it applied in the computation of such individual's primary insurance amount prior to the application of this subsection.

(D) A recomputation under this paragraph with respect to any year shall be effective—

(i) in the case of an individual who did not die in that year, for monthly benefits beginning with benefits for January of the following year; or

(ii) in the case of an individual who died in that year, for monthly benefits beginning with benefits for the month in which he died.

[(3) In the case of any individual who became entitled to old-age insurance benefits in 1952 or in a taxable year which began in 1952 (and without the application of section 202(j)(1)), or who died in 1952 or in a taxable year which began in 1952 but did not become entitled to such benefits prior to 1952, and who had self-employment income for a taxable year which ended within or with 1952 or which began in 1952, then upon application filed by such individual after the close of such taxable year and prior to January 1961 or (if he died without filing such application and such death occurred prior to January 1961) by a person entitled to monthly benefits on the basis of such individual's wages and self-employment income, the Secretary shall recompute such individual's primary insurance amount. Such recomputation shall be made in the manner provided in the preceding subsections of this section (other than subsection (b)(4)(A)) for computation of such amount, except that (A) the self-employment income closing date shall be the day following the quarter with or within which such taxable year ended, and (B) the self-employment income for any subsequent taxable year shall not be taken into account. Such recomputation shall be effective (A) in the case of an application filed by such individual, for and after the first month in which he became entitled to old-age insurance benefits, and (B) in the case of an application filed by any other person, for and after the month in which such person who filed such application for recomputation became entitled to such monthly benefits. No recomputation under this paragraph pursuant to an application filed after such individual's death shall affect the amount of the lump-sum death payment under subsection (i) of section 202, and no such recomputation shall render erroneous any such payment certified by the Secretary prior to the effective date of the recomputation.]

Sec. 215 (f) (3) is repealed.



[(4) Any recomputation under this subsection shall be effective only if such recomputation results in a higher primary insurance amount.]

(4) *A recomputation is effective under this subsection only if it results in a primary insurance amount that is at least \$1.00 higher than the previous primary insurance amount.*

(5) In the case of a man who became entitled to old-age insurance benefits and died before the month in which he attained age 65, the Secretary shall recompute his primary insurance amount as provided in subsection (a) as though he became entitled to old-age insurance benefits in the month in which he died; except that (i) his computation base years referred to in subsection (b) (2) shall include the year in which he died, and (ii) his elapsed years referred to in subsection (b) (3) shall not include the year in which he died or any year thereafter. Such recomputation of such primary insurance amount shall be effective for and after the month in which he died.

(6) Upon the death after 1967 of an individual entitled to benefits under section 202(a) or section 223, if any person is entitled to monthly benefits or a lump-sum death payment, on the wages and self-employment income of such individual, the Secretary shall recompute the decedent's primary insurance amount, but only if the decedent during his lifetime was paid compensation which was treated under section 205(o) as remuneration for employment.

(7) *This subsection, as in effect in December 1978, shall continue to apply to the recomputation of a primary insurance amount computed under subsection (a) or (d) as in effect (without regard to the table contained in subsection (a)) in that month, and, where appropriate, under subsection (d) as in effect in December 1977. For purposes of recomputing the primary insurance amount under subsection (a) or (d) (as thus in effect) with respect to an individual to whom those subsections apply by reason of paragraph (B) of subsection (a) (4) as in effect after December 1978, no remuneration shall be taken into account for the year in which the individual initially became eligible for an old-age insurance or disability insurance benefit or died, or for any year thereafter.*

#### Rounding of Benefits

(g) The amount of any primary insurance amount and the amount of any monthly benefit computed under section 202 or 223 which (after reduction under section 203(a) and deductions under section 203(b)) is not a multiple of \$0.10 shall be raised to the next higher multiple of \$0.10.

(h) (1) Notwithstanding the provisions of subchapter III of chapter 83 of title 5, United States Code, remuneration paid for services to which the provisions of section 210(1) (1) of this Act are applicable and which is performed by an individual as a commissioned officer of the Reserve Corps of the Public Health Service prior to July 1, 1960, shall not be included in computing entitlement to or the amount of any monthly benefit under this title, on the basis of his wages and self-employment income, for any month after June 1960 and prior to the first month with respect to which the Civil Service Commission certifies to the Secretary that, by reason of a waiver filed as provided in paragraph (2), no further annuity will be paid to him, his wife, and

his children, or, if he has died, to his widow and children, under subchapter III of chapter 83 of title 5, United States Code, on the basis of such service.

(2) In the case of a monthly benefit for a month prior to that in which the individual, on whose wages and self-employment income such benefit is based, dies, the waiver must be filed by such individual; and such waiver shall be irrevocable and shall constitute a waiver on behalf of himself, his wife, and his children. If such individual did not file such a waiver before he died, then in the case of a benefit for the month in which he died or any month thereafter, such waiver must be filed by his widow, if any, and by or on behalf of all his children, if any; and such waivers shall be irrevocable. Such a waiver by a child shall be filed by his legal guardian or guardians, or, in the absence thereof, by the person (or persons) who has the child in his care.

#### **Cost-of-Living Increases in Benefits**

(i) (1) For purposes of this subsection—

(A) the term “base quarter” means (i) the calendar quarter ending on March 31 in each year after 1974, or (ii) any other calendar quarter in which occurs the effective month of a general benefit increase under this title;

(B) the term “cost-of-living computation quarter” means a base quarter, as defined in subparagraph (A) (i), in which the Consumer Price Index prepared by the Department of Labor exceeds, by not less than 3 per centum, such Index in the later of (i) the last prior cost-of-living computation quarter which was established under this subparagraph, or (ii) the most recent calendar quarter in which occurred the effective month of a general benefit increase under this title; except that there shall be no cost-of-living computation quarter in any calendar year if in the year prior to such year a law has been enacted providing a general benefit increase under this title or if in such prior year such a general benefit increase becomes effective; and

(C) the Consumer Price Index for a base quarter, a cost-of-living computation quarter, or any other calendar quarter shall be the arithmetical mean of such index for the 3 months in such quarter.

(2) (A) (i) The Secretary shall determine each year beginning with 1975 (subject to the limitation in paragraph (1) (B) whether the base quarter (as defined in paragraph (1) (A) (i)) in such year is a cost-of-living computation quarter.

[(ii) If the Secretary determines that the base quarter in any year is a cost-of-living computation quarter, he shall, effective with the month of June of such year as provided in subparagraph (B), increase the benefit amount of each individual who for such month is entitled to benefits under section 227 or 228, and the primary insurance amount of each other individual under this title (but not including a primary insurance amount determined under subsection (a) (3) of this section), by an amount derived by multiplying each such amount (including each such individual's primary insurance amount or benefit amount under section 227 or 228 as previously increased under this subpara-



graph) by the same percentage (rounded to the nearest one-tenth of 1 percent) as the percentage by which the Consumer Price Index for such cost-of-living computation quarter exceeds such index for the most recent prior calendar quarter which was a base quarter under paragraph (1) (A) (ii) or, if later, the most recent cost-of-living computation quarter under paragraph (1) (B). Any such increased amount which is not a multiple of \$0.10 shall be increased to the next higher multiple of \$0.10.]

(ii) *If the Secretary determines that the base quarter in any year is a cost-of-living computation quarter, he shall, effective with the month of June of that year as provided in subparagraph (B), increase—*

(I) *the benefit amount of each individual who for that month is entitled to benefits under section 227 or 228,*

(II) *the primary insurance amount of each other individual on which benefit entitlement is based under this title, and*

(III) *the total monthly benefits based on each primary insurance amount and permitted under section 203 (which shall be increased, unless otherwise so increased under another provision of this title, at the same time as the primary insurance amount on which they are based) or, in the case of a primary insurance amount computed under subsection (a) as in effect (without regard to the table contained therein) prior to January 1979, the amount to which the beneficiaries may be entitled under section 203 as in effect in December 1978, except as provided by section 203 (a) (6) and (7) as in effect after December 1978.*

*but shall not increase a primary insurance amount that is computed under subparagraph (C) (i) (III) of subsection (a) (1) or a primary insurance amount that was computed prior to January 1979 under subsection (a) (3) as then in effect. The increase shall be derived by multiplying each of the amounts described in clauses (I), (II), and (III) (including each of those primary insurance amounts or benefit amounts as previously increased under this subparagraph) by the same percentage (rounded to the nearest one-tenth of 1 percent) as the percentage by which the Consumer Price Index for that cost-of-living computation quarter exceeds the Index for the most recent prior calendar quarter which was a base quarter under paragraph (1) (A) (ii) or, if later, the most recent cost-of-living computation quarter under paragraph (1) (B). Any amount so increased that is not a multiple of \$0.10 shall be increased to the next higher multiple of \$0.10.*

(iii) *In the case of an individual who becomes eligible for an old-age insurance or disability insurance benefit, or dies prior to becoming so eligible, in a year in which there occurs an increase provided in clause (ii), the individual's primary insurance amount (without regard to the time of entitlement to that benefit) shall be increased (unless otherwise so increased under another provision of this title) by the amount of that increase and subsequent applicable increases, but only with respect to benefits payable for months after May of that year.*

(B) *The increase provided by subparagraph (A) with respect to a particular cost-of-living computation quarter shall apply in the case of monthly benefits under this title for months after May of the calen-*



dar year in which occurred such cost-of-living computation quarter, and in the case of lump-sum death payments with respect to deaths occurring after May of such calendar year.

(C)(i) Whenever the level of the Consumer Price Index as published for any month exceeds by 2.5 percent or more the level of such index for the most recent base quarter (as defined in paragraph (1)(A)(ii) or, if later, the most recent cost-of-living computation quarter, the Secretary shall (within 5 days after such publication) report the amount of such excess to the House Committee on Ways and Means and the Senate Committee on Finance.

(ii) Whenever the Secretary determines that a base quarter in a calendar year is also a cost-of-living computation quarter, he shall notify the House Committee on Ways and Means and the Senate Committee on Finance of such determination within 30 days after the close of such quarter, indicating the amount of the benefit increase to be provided, his estimate of the extent to which the cost of such increase would be met by an increase in the contribution and benefit base under section 230 and the estimated amount of the increase in such base, the actuarial estimates of the effect of such increase, and the actuarial assumptions and methodology used in preparing such estimates.

(D) If the Secretary determines that a base quarter in a calendar year is also a cost-of-living computation quarter, he shall publish in the Federal Register within 45 days after the close of such quarter, a determination that a benefit increase is resultantly required and the percentage thereof. [He shall also publish in the Federal Register at that time (along with the increased benefit amounts which shall be deemed to be the amounts appearing in sections 227 and 228) a revision of the table of benefits contained in subsection (a) of this section (as it may have been most recently revised by another law or pursuant to this paragraph); and such revised table shall be deemed to be the table appearing in such subsection (a). Such revision shall be determined as follows:

[(i) The headings of the table shall be the same as the headings in the table immediately prior to its revision, except that the parenthetical phrase at the beginning of column II shall reflect the year in which the primary insurance amounts set forth in column IV of the table immediately prior to its revision were effective.

[(ii) The amounts on each line of column I and column III, except as otherwise provided by clause (v) of this subparagraph, shall be the same as the amounts appearing in each such column in the table immediately prior to its revision.

[(iii) The amount on each line of column II shall be changed to the amount shown on the corresponding line of column IV of the table immediately prior to its revision.

[(iv) The amounts on each line of column IV and column V shall be increased from the amounts shown in the table immediately prior to its revision by increasing each such amount by the percentage specified in subparagraph (A)(ii) of this paragraph. The amount on each line of column V shall be increased, if necessary, so that such amount is at least equal to one and one-half times the amount shown on the corresponding line in column IV.

Any such increased amount which is not a multiple of \$0.10 shall be increased to the next higher multiple of \$0.10.

[(v) If the contribution and benefit base (determined under section 230) for the calendar year in which the table of benefits is revised is lower than such base for the following calendar year, columns III, IV, and V of such table shall be extended. The amounts on each additional line of column III shall be the amounts on the preceding line increased by \$5 until in the last such line of column III the second figure is equal to one-twelfth of the new contribution and benefit base for the calendar year following the calendar year in which such table of benefits is revised. The amount on each additional line of column IV shall be the amount on the preceding line increased by \$1.00, until the amount on the last line of such column is equal to the last line of such column as determined under clause (iv) plus 20 percent of one-twelfth of the excess of the new contribution and benefit base for the calendar year following the calendar year in which such table of benefits is revised (as determined under section 230) over such base for the calendar year in which the table of benefits is revised. The amount in each additional line of column V shall be equal to 1.75 times the amount on the same line of column IV. Any such increased amount which is not a multiple of \$0.10 shall be increased to the next higher multiple of \$0.10] *He shall also publish in the Federal Register at that time a revision of the amount referred to in subparagraph (C) (i) (I) of subsection (a) (1) and that shall be the increased amount determined for purposes of such subparagraph (C) (i) (II) under this subsection.*

(3) As used in this subsection, the term "general benefit increase under this title" means an increase (other than an increase under this subsection) in all primary insurance amounts on which monthly insurance benefits under this title are based.

(4) *This subsection, as in effect in December 1978, shall continue to apply to subsections (a) and (d), as then in effect, with respect to computing the primary insurance amount of an individual to whom subsection (a), as in effect after December 1978, does not apply (including an individual to whom subsection (a) does not apply in any year by reason of paragraph (4) (B) of that subsection, but the application of this subsection in such cases shall be modified by the application of subclause (I) of clause (ii) of such paragraph (4) (B)). For purposes of computing primary insurance amounts and maximum family benefits (other than primary insurance amounts and maximum family benefits for individuals to whom such paragraph (4) (B) applies), the Secretary shall publish in the Federal Register revisions of the table of benefits contained in subsection (a), as in effect in December 1978, as required by paragraph (2) (D) of this subsection, as then in effect.*

\* \* \* \* \*

### Benefits in Case of Veterans

#### Sec. 217. (a) (1) \* \* \*

(b) (1) Any World War II veteran who died during the period of three years immediately following his separation from the active mili-



tary or naval service of the United States shall be deemed to have died a fully insured individual whose primary insurance amount is the amount determined under section 215(c) *as in effect in December 1978*. Notwithstanding section 215(d) *as in effect in December 1978*, the primary insurance benefit (for purposes of section 215(c) *as in effect in December 1978*) of such veteran shall be determined as provided in this title as in effect prior to the enactment of this section, except that the 1 per centum addition provided for in section 209(e) (2) of this Act as in effect prior to the enactment of this section shall be applicable only with respect to calendar years prior to 1951. This subsection shall not be applicable in the case of any monthly benefit or lump-sum death payment if—

(A) a larger such benefit or payment, as the case may be, would be payable without its application;

(B) any pension or compensation is determined by the Veterans' Administration to be payable by it on the basis of the death of such veteran;

(C) the death of the veteran occurred while he was in the active military or naval service of the United States; or

(D) such veteran has been discharged or released from the active military or naval service of the United States subsequent to July 26, 1951.

\* \* \* \* \*

### **Reduction of Benefits Based on Disability on Account of Receipt of Workmen's Compensation**

**Sec. 224.** (a) If for any month prior to the month in which an individual attains the age of 62—

(1) such individual is entitled to benefits under section 223, and

(2) such individual is entitled for such month, under a workmen's compensation law or plan of the United States or a State to periodic benefits for a total or partial disability (whether or not permanent), and the Secretary has, in a prior month, received notice of such entitlement for such month.

the total of this benefits under section 223 for such month and of any benefits under section 202 for such month based on his wages and self-employment income shall be reduced (but not below zero) by the amount by which the sum of—

(3) such total of benefits under sections 223 and 202 for such month, and

(4) such periodic benefits payable (and actually paid) for such month to such individual under the workmen's compensation law or plan,

exceeds the higher of—

(5) 80 per centum of his "average current earnings", or

(6) the total of such individual's disability insurance benefits under section 223 for such month and of any monthly insurance benefits under section 202 for such month based on his wages and self-employment income, prior to reduction under this section.

In no case shall the reduction in the total of such benefits under sections 223 and 202 for a month (in a continuous period of months) reduce such total below the sum of—



(7) the total of the benefits under sections 223 and 202, after reduction under this section, with respect to all persons entitled to benefits on the basis of such individual's wages and self-employment income for such month which were determined for such individual and such persons for the first month for which reduction under this section was made (or which would have been so determined if all of them had been so entitled in such first month), and

(8) any increase in such benefits with respect to such individual and such persons, before reduction under this section, which is made effective for months after the first month for which reduction under this section is made.

For purposes of clause (5), an individual's average current earnings means the largest of (A) the average monthly wage (*determined under section 215(b) as in effect prior to January 1979*) used for purposes of computing his benefits under section 223, (B) one-sixtieth of the total of his wages and self-employment income (computed without regard to the limitations specified in sections 209(a) and 211(b)(1)) for the five consecutive calendar years after 1950 for which such wages and self-employment income were highest, or (C) one-twelfth of the total of his wages and self-employment income (computed without regard to the limitations specified in sections 209(a) and 211(b)(1)) for the calendar year in which he had the highest such wages and income during the period consisting of the calendar year in which he became disabled (as defined in section 223(d)) and the five years preceding that year. In any case where an individual's wages and self-employment income reported to the Secretary for a calendar year reach the limitations specified in sections 209(a) and 211(b)(1), the Secretary under regulations shall estimate the total of such wages and self-employment income for purposes of clauses (B) and (C) of the preceding sentence on the basis of such information as may be available to him indicating the extent (if any) by which such wages and self-employment income exceed such limitations.

\* \* \* \* \*

### Entitlement to Hospital Insurance Benefits

#### Sec. 226.

(a) \* \* \*

(h) (1) For purposes of determining entitlement to hospital insurance benefits under subsection (b) in the case of widows and widowers described in paragraph (2) (A) (iii) thereof—

(A) the term "age 60" in sections 202(e) (1) (B) (ii), 202(e) (5), 202(f) (1) (B) (ii), and 202(f) (6) shall be deemed to read "age 65"; and

(B) the phrase "before she attained age 60" in the matter following subparagraph (F) of section 202(e) (1) and the phrase "before he attained age 60" in the matter following subparagraph [G] (F) of section 202(f) (1) shall each be deemed to read "based on a disability".

\* \* \* \* \*

(4) *For the purposes of determining entitlement to hospital insurance benefits under subsection (b) in the case of an individual described in clause (iii) of subsection (b) (2) (A), the entitlement of such individual to widow's or widower's insurance benefits under section 202 (e) or (f) by reason of a disability shall be deemed to be the entitlement to such benefits that would result if such entitlement were determined without regard to the provisions of section 202(j) (4).*

\* \* \* \* \*

### Adjustment of the Contribution and Benefit Base

**Sec. 230.** (a) Whenever the Secretary pursuant to section 215(i) increases benefits effective with the June following a cost-of-living computation quarter, he shall also determine and publish in the Federal Register on or before November 1 of the calendar year in which such quarter occurs the contribution and benefit base determined under subsection (b) which shall be effective with respect to remuneration paid after the calendar year in which such quarter occurs and taxable years beginning after such year.

(b) The amount of such contribution and benefit base shall (*subject to subsections (c) and (d)*) be the amount of the contribution and benefit base in effect in the year in which the determination is made or, if larger, the product of—

(1) the contribution and benefit base which was in effect with respect to remuneration paid in (and taxable years beginning in) the calendar year in which the determination under subsection (a) with respect to such particular calendar year was made, and

(2) the ratio of (A) the average of the wages of all employees as reported to the Secretary of the Treasury for the calendar year preceding the calendar year in which the determination under subsection (a) with respect to such particular calendar year was made to (B) the average of the wages of all employees as reported to the Secretary of the Treasury for the calendar year 1973 or, if later, the calendar year preceding the most recent calendar year in which an increase in the contribution and benefit base was enacted or a determination resulting in such an increase was made under subsection (a),

with such product, if not a multiple of \$300, being rounded to the next higher multiple of \$300 where such product is a multiple of \$150 but not of \$300 and to the nearest multiple of \$300 in any other case. For purposes of this subsection, the average of the wages for the calendar year 1978 (or any prior calendar year) shall, in the case of determinations made under subsection (a) prior to December 31, 1979, be deemed to be an amount equal to 400 per centum of the amount of the average of the taxable wages of all employees as reported to the Secretary for the first calendar quarter of such calendar year.

(c) For purposes of this section, and for purposes of determining wages and self-employment income under sections 209, 211, 213, and 215 of this Act and sections 1402, 3121, 3122, 3125, 6413, and 6654 of the Internal Revenue Code of 1954, the "contribution and benefit base" with respect to remuneration paid in (and taxable years beginning in) any calendar year after 1973 and prior to the calendar year with



the June of which the first increase in benefits pursuant to section 215(i) of this Act becomes effective shall be \$13,200 or (if applicable) such other amount as may be specified in a law enacted subsequent to the law which added this section.

*For purposes of the employer tax liability under section 3111 of the Internal Revenue Code of 1954 and section 3221(b) of such Code in the case of railroad employment, the contribution and benefit base referred to in paragraph (1) of section 3121(a) of the Internal Revenue Code of 1954 is deemed to be \$50,000 with respect to remuneration paid during calendar years 1979 through 1984, and with respect to calendar years after 1984 \$75,000 or (if higher) the contribution and benefit base as determined under this section without regard to the provisions of this sentence.*

*(d) Except as otherwise provided by the last sentence of subsection (c) and except for purposes of determining employer tax liability under section 3221(a) of the Internal Revenue Code of 1954, for calendar years 1979, 1981, 1983, and 1985 the contribution and benefit base shall be equal to the amount determined under subsection (b) but as augmented for each such year (and carried forward thereafter) by \$600; and the amount of such base for any such year as so increased shall be deemed to be the amount of such base for such year for purposes of determining any increase, under the preceding provisions of this section, in such base for any succeeding year.*

*(e) For purposes of subsection (b), the term "wages" for years after 1976 shall have the meaning assigned to such term by section 3401(a) of the Internal Revenue Code of 1954 and section 3121(a) of such Code (but without regard to the operation of section 230 of the Social Security Act as specified therein) to the extent that they are excluded from such section 3401(a). For years before 1977, the term "wages" shall be determined under regulations to be promulgated by the Secretary.*

\* \* \* \* \*

## INTERNATIONAL AGREEMENTS

### Purpose of Agreement

**Sec. 233.** *(a) The President is authorized (subject to the succeeding provisions of this section) to enter into agreements establishing totalization arrangements between the social security system established by this title and the social security system of any foreign country, for the purposes of establishing entitlement to and the amount of old-age, survivors, disability, or derivative benefits based on a combination of an individual's periods of coverage under the social security system established by this title and the social security system of such foreign country.*

### Definitions

*(b) For the purposes of this section—*

*(1) the term "social security system" means, with respect to a foreign country, a social insurance or pension system which is of general application in the country and under which periodic bene-*



*fits, or the actuarial equivalent thereof, are paid on account of old age, death, or disability; and*

*(2) the term "period of coverage" means a period of payment of contributions or a period of earnings based on wages for employment or on self-employment income, or any similar period recognized as equivalent thereto under this title or under the social security system of a country which is a party to an agreement entered into under this section.*

#### **Crediting Periods of Coverage; Conditions of Payment of Benefits**

*(c)(1) Any agreement establishing a totalization arrangement pursuant to this section shall provide—*

*(A) that in the case of an individual who has at least 6 quarters of coverage as defined in section 213 of this Act and periods of coverage under the social security system of a foreign country which is a party to such agreement, periods of coverage of such individual under such social security system of such foreign country may be combined with periods of coverage under this title and otherwise considered for the purposes of establishing entitlement to and the amount of old-age, survivors, and disability insurance benefits under this title;*

*(B) (i) that employment or self-employment, or any service which is recognized as equivalent to employment or self-employment under this title or the social security system of a foreign country which is a party to such agreement, shall, on or after the effective date of such agreement, result in a period of coverage under the system established under this title or under the system established under the laws of such foreign country, but not under both, and (ii) the methods and conditions for determining under which system employment, self-employment, or other service shall result in a period of coverage; and*

*(C) that where an individual's periods of coverage are combined, the benefit amount payable under this title shall be based on the proportion of such individual's periods of coverage which was completed under this title.*

*(2) Any such agreement may provide that—*

*(A) an individual who is entitled to cash benefits under this title shall, notwithstanding the provisions of section 202(t), receive such benefits while he resides in a foreign country which is a party to such agreement; and*

*(B) the benefit paid by the United States to an individual who legally resides in the United States shall be increased to an amount, which, when added to the benefit paid by such foreign country, will be equal to the benefit amount which would be payable to an entitled individual based on the first figure in (or deemed to be in) column IV of the table in section 215(a) in the case of an individual becoming eligible for such benefit before January 1, 1979, or based on a primary insurance amount determined under section 215(a)(1)(C)(i)(I) or (II) in the case of an individual becoming eligible for such benefit on or after that date.*

(3) *Section 226 shall not apply in the case of any individual to whom it would not be applicable but for this section or any agreement or regulation under this section.*

(4) *Any such agreement may contain other provisions, which are not inconsistent with the other provisions of this title and which the President deems appropriate to carry out the purposes of this section.*

### **Regulations**

(d) *The Secretary of Health, Education, and Welfare shall make rules and regulations and establish procedures which are reasonable and necessary to implement and administer any agreement which has been entered into in accordance with this section.*

### **Reports to Congress; Effective Date of Agreements**

(e)(1) *Any agreement to establish a totalization arrangement entered into pursuant to this section shall be transmitted by the President to the Congress together with a report on the estimated number of individuals who will be affected by the agreement and the effect of the agreement on the estimated income and expenditures of the programs established by this Act.*

(2) *Such an agreement shall become effective on any date, provided in the agreement, which occurs after the expiration of the period, following the date on which the agreement is transmitted in accordance with paragraph (1), during which each House of the Congress has been in session on each of 90 days; except that such agreement shall not become effective if, during such period, either House of the Congress adopts a resolution of disapproval of the agreement.*

\* \* \* \* \*

## **TITLE IV—GRANTS TO STATES FOR AID AND SERVICES TO NEEDY FAMILIES WITH CHILDREN AND FOR CHILD-WELFARE SERVICES**

### **PART A—AID TO FAMILIES WITH DEPENDENT CHILDREN**

\* \* \* \* \*

#### **State Plans for Aid and Services to Needy Families With Children**

SEC. 402. (a) A State plan for aid and services to needy families with children must—

(1) \* \* \*

(7) except as may be otherwise provided in clause (8), provide that the State agency shall, in determining need, take into consideration any other income and resources of any child or relative claiming aid to families with dependent children, or of any other individual (living in the same home as such child and relative) whose needs the State determines should be considered in determining the need of the child or relative claiming such aid, as well as any *child care* expenses reasonably attributable to the earning of any such income;

(8) provide that, in making the determination under clause (7), the State agency—

(A) shall with respect to any month disregard—

(i) all of the earned income of each dependent child receiving aid to families with dependent children who is (as determined by the State in accordance with standards prescribed by the Secretary) a full-time student or part-time student who is not a full-time employee attending a school, college, or university, or a course of vocational or technical training designed to fit him for gainful employment, and

[(ii) in the case of earned income of a dependent child not included under clause (i), a relative receiving such aid, and any other individual (living in the same home as such relative and child) whose needs are taken into account in making such determination, the first \$30 of the total of such earned income for such month plus one-third of the remainder of such income for such month (except that the provisions of this clause (ii) shall not apply to earned income derived from participation on a project maintained under the programs established by section 432(b)(2) and (3)); and]

*(ii) in the case of earned income of a dependent child not included under clause (i), a relative receiving such aid, and any other individual (living in the same home as such relative and child) whose needs are taken into account in making such determination, (I) the first \$60 of earned income for individuals who are employed at least forty hours per week, or at least thirty-five hours per week and are earning at least \$92 per week, and (II) the first \$30 of earned income for individuals not meeting the criteria of subclause (I), plus (III) in each case, one-third of up to \$300 of additional earnings, and one-fifth of such additional earnings in excess of \$300, except that in each case an amount equal to the reasonable child care expenses incurred (subject to such limitations as the Secretary may prescribe in regulations) shall first be deducted before computing such individual's earned income (except that the provisions of this clause (ii) shall not apply to earned income derived from participation on a project maintained under the programs established by section 422(b)(2) and (3)); and*

(B) (i) may, subject to the limitations prescribed by the Secretary, permit all or any portion of the earned or other income to be set aside for future identifiable needs of a dependent child, and (ii) may, before disregarding the amounts referred to in subparagraph (A) and clause (i) of this subparagraph, disregard not more than \$5 per month of any income; except that, with respect to any month, the State agency shall not disregard any earned income (other than income referred to in subparagraph (B)) of—

(C) any one of the person specified in clause (ii) of subparagraph (A) if such person—

(i) terminated his employment or reduced his earned income without good cause within such period (of not less than 30 days) preceding such month as may be prescribed by the Secretary; or



(ii) refused without good cause, within such period preceding such month as may be prescribed by the Secretary, to accept employment in which he is able to engage which is offered through the public employment offices of the State, or is otherwise offered by an employer if the offer of such employer is determined by the State or local agency administering the State plan, after notification by him, to be a bona fide offer of employment; or

(D) any of such persons specified in clause (ii) of subparagraph (A) if with respect to such month the income of the persons so specified (within the meaning of clause (7)) was in excess of their need as determined by the State agency pursuant to clause (7) (without regard to clause (8)), unless, for any one of for four months preceding such month, the needs of such person were met by the furnishing of aid under the plan;

\* \* \* \* \*

(27) provide, that the State has in effect a plan approved under part D and operate a child support program in conformity with such plan; [and]

(28) provide that, in determining the amount of aid to which an eligible family is entitled, any portion of the amounts collected in any particular month as child support pursuant to a plan approved under part D, and retained by the State under section 457, which (under the State plan approved under this part as in effect both during July 1975 and during that particular month) would not have caused a reduction in the amount of aid paid to the family if such amounts had been paid directly to the family, shall be added to the amount of aid otherwise payable to such family under the State plan approved under this part [.] and

(29) *Effective October 1, 1979, provide that wage information available from the Social Security Administration under the provisions of section 411 of this Act, and available (under the provisions of section 3304(a)(16) of the Federal Unemployment Tax Act) from agencies administering State unemployment compensation laws, shall be requested and utilized to the extent permitted under the provisions of such sections; except that the State shall not be required to request such information from the Social Security Administration where such information is available from the agency administering the State unemployment compensation laws.*

\* \* \* \* \*

### Payment to States

**Sec. 403.** (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for aid and services to needy families with children, for each quarter, beginning with the quarter commencing October 1, 1958—

(1) in the case of any State other than Puerto Rico, the Virgin Islands, and Guam, an amount equal to the sum of the following proportions of the total amounts expended during such quarter as aid to families with dependent children under the State plan

(including expenditures for premiums under part B of title XVIII for individuals who are recipients of money payments under such plan and other insurance premiums for medical or any other type of remedial care or the cost thereof)—

(A) five-sixths of such expenditures, not counting so much of any expenditure with respect to any month as exceeds the product of \$18 multiplied by the total number of recipients of aid to families with dependent children for such month (which total number, for purposes of this subsection, means (i) the number of individuals with respect to whom such aid in the form of money payments is paid for such month, plus (ii) the number of other individuals with respect to whom expenditures were made in such month as aid to families with dependent children in the form of medical or any other type of remedial care, plus (iii) the number of individuals, not counted under clause (i) or (ii), with respect to whom payments described in section 406(b) (2) are made in such month and included as expenditures for purposes of this paragraph or paragraph (2)); plus

(B) the Federal percentage of the amount by which such expenditures exceed the maximum which may be counted under clause (A), not counting so much of any expenditure with respect to any month as exceeds (i) the product of \$32 multiplied by the total number of recipients of aid to families with dependent children (other than such aid in the form of foster care) for such month, plus (ii) the product of \$100 multiplied by the total number of recipients of aid to families with dependent children in the form of foster care for such month; and

(2) in the case of Puerto Rico, the Virgin Islands, and Guam, an amount equal to one-half of the total of the sums expended during such quarter as aid to families with dependent children under the State plan (including expenditures for premiums under part B of title XVIII for individuals who are recipients of money payments under such plan and other insurance premiums for medical or any other type of remedial care or the cost thereof) not counting so much of any expenditure with respect to any month as exceeds \$18 multiplied by the total number of recipients of such aid for such month; and

(3) in the case of any State, an amount equal to the sum of the following proportions of the total amounts expended during such quarter as found necessary by the Secretary of Health, Education, and Welfare for the proper and efficient administration of the State plan—

(A) 75 per centum of so much of such expenditures as are for the training (including both short- and long-term training at educational institutions through grants to such institutions or by direct financial assistance to students enrolled in such institutions) of personnel employed or preparing for employment by the State agency or by the local agency administering the plan in the political subdivision, and

(B) one-half of the remainder of such expenditures, except that no payment shall be made with respect to amounts expended in connection with the provision of any service described in section 2002(a) (1) of this Act other than services the provision of which is required by section 402(a) (19) to be included in the plan of the States; and

(4) [Repealed].

(5) in the case of any State, an amount equal to 50 per centum of the total amount expended under the State plan during such quarter as emergency assistance to needy families with children.

The number of individuals with respect to whom payments described in section 406(b) (2) are made for any month, who may be included as recipients of aid to families with dependent children for purposes of paragraph (1) or (2), may not exceed 10 per centum of the number of other recipients of aid to families with dependent children for such month. In computing such 10 percent, there shall not be taken into account individuals with respect to whom such payments are made for any month in accordance with section 402(a) (19) (F) or section 402(a) (26).

*In the case of calendar quarters beginning after September 30, 1977 and prior to April 1, 1978, the amount to be paid to each State (as determined under the preceding provisions of this subsection or section 1118, as the case may be) shall be increased in accordance with the provisions of subsection (i) of this section.*

(b) The method of computing and paying such amounts shall be as follows:

(1) The Secretary of Health, Education, and Welfare shall, prior to the beginning of each quarter, estimate the amount to be paid to the State for such quarter under the provisions of subsection (a), such estimate to be based on (A) a report filed by the State containing its estimate of the total sum to be expended in such quarter in accordance with the provisions of such subsection and stating the amount appropriated or made available by the State and its political subdivisions for such expenditures in such quarters, and if such amount is less than the State's proportionate share of the total sum of such estimated expenditures, the source or sources from which the difference is expected to be derived, (B) records showing the number of dependent children in the State, and (C) such other investigation as the Secretary may find necessary.

(2) The Secretary of Health, Education, and Welfare shall then certify to the Secretary of the Treasury the amount so estimated by the Secretary of Health, Education, and Welfare, (A) reduced or increased, as the case may be, by any sum by which the Secretary of Health, Education, and Welfare finds that his estimate for any prior quarter was greater or less than the amount which should have been paid to the State for such quarter, and (B) reduced by a sum equivalent to the pro rata share to which the United States is equitably entitled, as determined by the Secretary of Health, Education, and Welfare, of the net amount recovered during any prior quarter by the State or any political subdivision thereof with respect to aid to families with dependent



children furnished under the State plan; except that such increases or reductions shall not be made to the extent that such sums have been applied to make the amount certified for any prior quarter greater or less than the amount estimated by the Secretary of Health, Education, and Welfare for such prior quarter.

(3) The Secretary of the Treasury shall thereupon, through the Fiscal Service of the Treasury Department and prior to audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Secretary of Health, Education, and Welfare, the amount so certified.

(c) Notwithstanding any other provision of this Act, the Federal share of assistance payments under this part shall be reduced with respect to any State for any fiscal year after June 30, 1973, by one percentage point for each percentage point by which the number of individuals certified, under the program of such State established pursuant to section 402(a)(19)(G), to the local employment office of the State as being ready for employment or training under part C, is less than 15 per centum of the average number of individuals in such State who, during such year, are required to be registered pursuant to section 402(a)(19)(A).

(d)(1) Notwithstanding subparagraph (A) of subsection (a)(3) the rate specified in such subparagraph shall be 90 per centum (rather than 75 per centum) with respect to social and supportive service provided pursuant to section 402(a)(19)(G).

(2) Of the sums authorized by section 401 to be appropriated for the fiscal year ending June 30, 1973, not more than \$750,000,000 shall be appropriated to the Secretary for payments with respect to services to which paragraph (1) applies.

(e) [Repealed]

(f) Notwithstanding any other provision of this section, the amount payable to any State under this part for quarters in a fiscal year shall with respect to quarters in fiscal years beginning after June 30, 1973, be reduced by 1 per centum (calculated without regard to any reduction under section 403(g) of such amount if such State—

(1) in the immediately preceding fiscal year failed to carry out the provisions of section 402(a)(15)(B) as pertain to requiring the offering and arrangement for provision of family planning services; or

(2) in the immediately preceding fiscal year (but, in the case of the fiscal year beginning July 1, 1972, only considering the third and fourth quarters thereof), failed to carry out the provisions of section 402(a)(15)(B) of the Social Security Act with respect to any individual who, within such period or periods as the Secretary may prescribe, has been an applicant for or recipient of aid to families with dependent children under the plan of the State approved under this part.

(g) Notwithstanding any other provision of this section, the amount payable to any State under this part for quarters in a fiscal year shall with respect to quarters in fiscal years beginning after June 30, 1974, be reduced by 1 per centum (calculated without regard to any reduction under section 403(f)) of such amount if such State fails to—

(1) inform all families in the State receiving aid to families with dependent children under the plan of the State approved under this part of the availability of child health screening services under the plan of such State approved under title XIX,

(2) provide or arrange for the provision of such screening services in all cases where they are requested, or

(3) arrange for (directly or through referral to appropriate agencies, organizations, or individuals) corrective treatment the need for which is disclosed by such child health screening services.

(h) Notwithstanding any other provision of this Act, the amount payable to any State under this part for quarters in a fiscal year shall with respect to quarters beginning after December 31, 1976, be reduced by 5 per centum of such amount if such State is found by the Secretary as the result of the annual audit to have failed to have an effective program meeting the requirements of section 402(a) (27) in any fiscal year beginning after September 30, 1976 (but, in the case of the fiscal year beginning October 1, 1976, only considering the second, third, and fourth quarters thereof).

(i) (1) *In the case of any calendar quarter which begins after September 30, 1977, and prior to April 1, 1978, the amount payable (as determined under subsection (a) or section 1118, as the case may be) to each State, which has a State plan approved under this part, shall (subject to the succeeding paragraphs of this subsection) be increased by an amount equal to the sum of the following:*

(A) *an amount which bears the same ratio to \$100,000,000 as the amount expended as aid to families with dependent children under the State plan of such State during the month of December 1976 bears to the amount expended as aid to families with dependent children under the State plans of all States during such month, and*

(B) (i) *in the case of Puerto Rico, Guam and the Virgin Islands, an amount equal to the amount determined under subparagraph (A) with respect to such State, or*

(ii) *in the case of any other State, an amount which bears the same ratio to \$100,000,000, minus the amounts determined under clause (i) of this subparagraph, as the amount allocated to such State, under section 106 of the State and Local Fiscal Assistance Act of 1972 for the most recent entitlement period for which allocations have been made under such section prior to the date of enactment of this subsection, bears to the total of the amounts allocated to all States under such section 106 for such period.*

(2) *As a condition of any State receiving an increase, by reason of the application of the foregoing provisions of this subsection, in the amount determined for such State pursuant to subsection (a) or under section 1118 (as the case may be), such State must agree to pay to any political subdivision thereof which participates in the cost of the State's plan, approved under this part, during any calendar quarter with respect to which such increase applies, so much of such increase as does not exceed 90 per centum of such political subdivision's financial contribution to the State's plan for such quarter.*

(3) *Notwithstanding any other provision of this part, the amount payable to any State by reason of the preceding provisions of this sub-*

section for calendar quarters prior to April 1, 1978 shall be made in a single installment, which shall be payable as shortly after October 1, 1977 as is administratively feasible.

### *Incentive Adjustments in Federal Financial Participation*

(j) *If the dollar error rate of excess payments of aid furnished by a State under its State plan, approved under this part, with respect to any six-month period, as based on samples and evaluations thereof is—*

*(1) at least 4 per centum, the amount of the Federal financial participation in the expenditures made by the State in carrying out such plan during such period shall be determined without regard to the provisions of this subsection; or*

*(2) less than 4 per centum, the amount of the Federal financial participation in the expenditures made by the State in carrying out such plan during such period shall be the amount determined without regard to this subsection, plus, of the amount by which such expenditures are less than they would have been if the erroneous excess payments of aid had been at a rate of 4 per centum—*

*(A) 10 per centum of the Federal share of such amount, in case such rate is not less than 3.5 per centum,*

*(B) 20 per centum of the Federal share of such amount, in case such rate is at least 3.0 per centum but less than 3.5 per centum,*

*(C) 30 per centum of the Federal share of such amount, in case such rate is at least 2.5 per centum but less than 3.0 per centum,*

*(D) 40 per centum of the Federal share of such amount, in case such rate is at least 2.0 per centum but less than 2.5 per centum,*

*(E) 50 per centum of the Federal share of such amount, in case such rate is less than 2.0 per centum.*

\* \* \* \* \*

### **Access To Wage Information**

**Sec. 411.** (a) *Notwithstanding any other provision of law, the Secretary shall make available to States and political subdivisions thereof wage information contained in the records of the Social Security Administration which is necessary (as determined by the Secretary in regulations) for purposes of determining an individual's eligibility for aid or services, or the amount of such aid or services, under a State plan for aid and services to needy families with children, approved under this part, and which is specifically requested by such State or political subdivision for such purposes.*

(b) *The Secretary shall establish such safeguards as are necessary (as determined by the Secretary under regulations) to insure that information made available under the provisions of this section is used only for the purposes authorized by this section.*

\* \* \* \* \*



## TITLE VII—ADMINISTRATION

\* \* \* \* \*

*Delivery of Benefit Checks*

*Sec. 708. Notwithstanding any other provision of this Act, when the normal day for delivery of benefit checks under title II or XVI of this Act would, but for the provisions of this section, fall on a Saturday, Sunday, or legal public holiday (as defined in section 6103 of title 5, United States Code), benefit checks for such month shall be mailed for delivery on the first day preceding such normal delivery day which is not a Saturday, Sunday, or legal public holiday, without regard to whether the delivery of such checks is made in the same calendar month in which such normal day for delivery would occur.*

\* \* \* \* \*

## TITLE XI—GENERAL PROVISIONS AND PROFESSIONAL STANDARDS REVIEW

## PART A—GENERAL PROVISIONS

\* \* \* \* \*

## Demonstration Projects

Sec. 1115. (a) In the case of any experimental, pilot, or demonstration project which, in the judgment of the Secretary, is likely to assist in promoting the objectives of title I, VI, X, XIV, XVI, XIX, or XX, or part A of title IV, in a State or States—

[(a)] (1) the Secretary may waive compliance with any of the requirements of section 2, 402, 602, 1002, 1402, 1602, 1902, 2002, 2003, or 2004, as the case may be, to the extent and for the period he finds necessary to enable such State or States to carry out such project, and

[(b)] (2) costs of such project which would not otherwise be included as expenditures under section 3, 403, 603, 1003, 1403, 1603, 1903, or 2002, as the case may be, and which are not included as part of the costs of projects under section 1110, shall, to the extent and for the period prescribed by the Secretary, be regarded as expenditures under the State plan or plans approved under such title, or for administration of such State plan or plans, or expenditures with respect to which payment shall be made under section 2002, as may be appropriate.

In addition, not to exceed \$4,000,000 of the aggregate amount appropriated for payments to States under such titles for any fiscal year beginning after June 30, 1967, shall be available, under such terms and conditions as the Secretary may establish, for payments to States to cover so much of the cost of such project as is not covered by payments under such titles and is not included as part of the cost of projects for purposes of section 1110.

(b) (1) *In order to permit the States to achieve more efficient and effective use of funds for public assistance, to reduce dependency, and to improve the living conditions and increase the incomes of individuals who are recipients of public assistance, any State having an approved plan under part A of title IV may, subject to the provisions of this subsection, establish and conduct not more than three demonstration projects. In establishing and conducting any such project the State shall—*

(A) *provide that not more than one such project be conducted on a statewide basis;*

(B) *provide that in making arrangements for public service employment—*

(i) *appropriate standards for the health, safety, and other conditions applicable to the performance of work and training on such project are established and will be maintained,*

(ii) *such project will not result in the displacement of employed workers,*

(iii) *with respect to such project the conditions of work, training, education, and employment are reasonable in the light of such factors as the type of work, geographical region, and proficiency of the participant, and*

(iv) *appropriate workmen's compensation protection is provided to all participants;*

(C) *provide that participation in any such project by any individual receiving aid to families with dependent children be voluntary.*

(2) *Any State which establishes and conducts demonstration projects under this subsection, may, subject to paragraph (3), with respect to any such project—*

(A) *waive, subject to paragraph (3), any or all of the requirements of sections 402(a)(1) (relating to statewide operation), 402(a)(3) (relating to administration by a single State agency), 402(a)(8) (relating to disregard of earned income), except that no such waiver of 402(a)(8) shall operate to waive any amount in excess of one-half of the earned income of any individual, and 402(a)(19) (relating to the work incentive program);*

(B) *subject to paragraph (4) use to cover the costs of such projects such funds as are appropriated for payment to any such State with respect to the assistance which is or would, except for participation in a project under this subsection, be payable to individuals participating in such projects under part A of title IV for any fiscal year in which such demonstration projects are conducted; and*

(C) *use such funds as are appropriated for payments to States under the State and Local Fiscal Assistance Act of 1972 for any fiscal year in which such demonstration projects are conducted to cover so much of the costs of salaries for individuals participating in public service employment as is not covered through the use of funds made available under subparagraph (B).*

(3) (A) *Any State which wishes to establish and conduct demonstration projects under the provisions of this subsection shall submit*

an application to the Secretary in such form and containing such information as the Secretary may require. Such State shall be authorized to proceed with such project (i) when said application has been approved by the Secretary, or (ii) 45 days after the date on which such application is submitted unless the Secretary, during such 45 day period, disapproves such application.

(B) Notwithstanding the provisions of paragraph (2)(A), the Secretary may review any waiver made by a State under such paragraph. Upon a finding that any such waiver is inconsistent with the purposes of this subsection and the purposes of part A of title IV, the Secretary may disapprove such waiver. The demonstration project under which any such disapproved waiver was made by such State shall be terminated not later than the last day of the month following the month in which such waiver was disapproved.

(4) Any amount payable to a State under section 403(a) on behalf of an individual participating in a project under this section shall not be increased by reason of the participation of such individual in any demonstration project conducted under this subsection over the amount which would be payable if such individual were receiving aid to families with dependent children and not participating in such project.

(5) Participation in a project established under this section shall not be considered to constitute employment for purposes of any finding with respect to 'unemployment' as that term is used in section 407.

(6) Any demonstration project established and conducted pursuant to the provisions of this subsection shall be conducted for not longer than two years. All demonstration projects established and conducted pursuant to the provisions of this subsection shall be terminated not later than September 30, 1980.

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### Payments to Certain Public and Nonprofit Employers

**Sec. 1132.** (a) The Secretary shall, in the case of any State having an agreement under section 218 of the Social Security Act, or any organization described in section 501(c)(3), which is exempt from tax under section 501(a) for the taxable year, pay to each such State or organization (subject to the availability of funds appropriated under the provisions of subsection (c)) an amount determined under subsection (b). In order to receive a payment under this section, a State or organization shall file a claim with respect to the taxable year in such form, manner, and at the time prescribed by the Secretary by regulations. The Secretary shall certify to the Secretary of the Treasury the name and address of each State or organization eligible to receive such payment, the amount of such payment, and the time at which such payment should be made, and the Secretary of the Treasury, through the Fiscal Service of the Treasury Department, shall make payments in accordance with the certification of the Secretary.



(b) (1) *The amount payable to a State under subsection (a) for the taxable year shall (subject to the provisions of subsection (c)) be equal to 50 percent of that portion of the amount paid by such State under the provisions of section 218(e)(1)(A) with respect to remuneration paid to individuals as employees of such State (or any political subdivision thereof) during the taxable year, which amount—*

*(A) was paid as the amount equivalent to the taxes which would be imposed by section 3111 of the Internal Revenue Code of 1954 if the services of employees covered by such State's agreement under section 218 constituted employment as defined in section 3121 of such code and*

*(B) was paid with respect to remuneration paid to individuals as employees of such State (or any political subdivision thereof) which remuneration was in excess (with respect to any individual during the taxable year) of the contribution and benefit base applicable with respect to such taxable year, under the provisions of section 230 as such section applies to employees.*

(2) *The amount payable under subsection (a) to an organization described in section 501(c) (3) of such Code, which is exempt from tax under section 501(a) of such Code for the taxable year, shall be equal to 50 percent of that portion of the taxes paid by such organization under section 3111 of such Code, which taxes—*

*(A) were paid with respect to remuneration paid to individuals as employees of such organization during the taxable year, and*

*(B) were paid with respect to remuneration paid to individuals as employees of such organization which remuneration was in excess (with respect to any individual during the taxable year) of the contribution and benefit base applicable with respect to such taxable year, under the provisions of section 230 as such section applies to employees.*

(c) *There are authorized to be appropriated such sums as are necessary to carry out the provisions of this section. If the sums appropriated for any fiscal year for making payments under this section are insufficient to pay in full the total amounts which States and organizations are authorized to receive under this section during such fiscal year, the maximum amounts which all such States and organizations may receive under this section during such fiscal year shall be ratably reduced. In case additional funds become available for making such payments for any fiscal year during which the preceding sentence is applicable, such reduced amounts shall be increased on the same basis as they were reduced.*

(d) *Any State receiving a payment under the provisions of this section shall agree to pay (and any such payment shall be made on the condition that such State pay) to any political division thereof a percentage of such payment which percentage shall be equal to the percentage of the amount paid by such State under section 218(e)(1)(A) for which such State was reimbursed by such political subdivision.*

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# TITLE XVIII—HEALTH INSURANCE FOR THE AGED AND DISABLED

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## Amounts of Premiums

Sec. 1839. (a) \* \* \*

(c) (1) \* \* \*

(3) The Secretary shall, during December of 1972 and of each year thereafter, determine and promulgate the monthly premium applicable for the individuals enrolled under this part for the 12-month period commencing July 1 in the succeeding year. The monthly premium shall be equal to the smaller of—

(A) the monthly actuarial rate for enrollees age 65 and over, determined according to paragraph (1) of this subsection, for that 12-month period, or

[(B) the monthly premium rate most recently promulgated by the Secretary under this paragraph or, in the case of the determination made in December 1971, such rate promulgated under subsection (b) (2) multiplied by the ratio of (i) the amount in column IV of the table which, by reason of the law in effect at the time the promulgation is made, will be in effect as of May 1 next following such determination appears (or is deemed to appear) in section 215(a) on the line which includes the figure "750" in column III of such table to (ii) the amount in column IV of the table which appeared (or was deemed to appear) in section 215(a) on the line which included the figure "750" in column III as of May 1 of the year in which such determination is made.]

*(B) the monthly premium rate most recently promulgated by the Secretary under this paragraph, increased by a percentage determined as follows: The Secretary shall ascertain the primary insurance amount computed under section 215(a) (1), based upon average indexed monthly earnings of \$900, that applied to individuals who became eligible for and entitled to old-age insurance benefits on May 1 of the year of the promulgation. He shall increase the monthly premium rate by the same percentage by which that primary insurance amount is increased when, by reason of the law in effect at the time the promulgation is made, it is so computed to apply to those individuals on the following May 1.*

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## SELECTED PROVISIONS OF THE INTERNAL REVENUE CODE OF 1954

26 U.S.C. 1—

### SUBTITLE A—INCOME TAXES

\* \* \* \* \*

### CHAPTER 2—TAX ON SELF-EMPLOYMENT INCOME

#### SEC. 1401. RATE OF TAX

(a) OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.—In addition to other taxes, there shall be imposed for each taxable year, on the

self-employment income of every individual, a tax as follows: [equal to 7.0 percent of the amount of the self-employment income for such taxable year.]

(1) in the case of any taxable year beginning after December 31, 1972, and before January 1, 1978, the tax shall be equal to 7.00 percent of the amount of the self-employment income for such taxable year;

(2) in the case of any taxable year beginning after December 31, 1977, and before January 1, 1979, the tax shall be equal to 7.10 percent of the amount of the self-employment income for such taxable year;

(3) in the case of any taxable year beginning after December 31, 1978, and before January 1, 1981, the tax shall be equal to 7.05 percent of the amount of the self-employment income for such taxable year;

(4) in the case of any taxable year beginning after December 31, 1980, and before January 1, 1985, the tax shall be equal to 8.00 percent of the amount of the self-employment income for such taxable year;

(5) in the case of any taxable year beginning after December 31, 1984, and before January 1, 1990, the tax shall be equal to 8.50 percent of the amount of the self-employment income for such taxable year;

(6) in the case of any taxable year beginning after December 31, 1989, and before January 1, 1995, the tax shall be equal to 9.15 percent of the amount of the self-employment income for such taxable year;

(7) in the case of any taxable year beginning after December 31, 1994, and before January 1, 2001, the tax shall be equal to 10.05 percent of the amount of the self-employment income for such taxable year;

(8) in the case of any taxable year beginning after December 31, 2000, and before January 1, 2011, the tax shall be equal to 10.95 percent of the amount of the self-employment income for such taxable year; and

(9) in the case of any taxable year beginning after December 31, 2010, the tax shall be equal to 11.70 percent of the amount of the self-employment income for such taxable year.

(b) HOSPITAL INSURANCE.—In addition to the tax imposed by the preceding subsection, there shall be imposed for each taxable year, on the self-employment income of every individual, a tax as follows:

(1) in the case of any taxable year beginning after December 31, 1973, and before January 1, 1978, the tax shall be equal to 0.90 percent of the amount of the self-employment income for such taxable year;

[(2) in the case of any taxable year beginning after December 31, 1977, and before January 1, 1981, the tax shall be equal to 1.10 percent of the amount of the self-employment income for such taxable year;

[(3) in the case of any taxable year beginning after December 31, 1980, and before January 1, 1986, the tax shall be equal to 1.35 percent of the amount of the self-employment income for such taxable year; and

[(4) in the case of any taxable year beginning after December 31, 1985, the tax shall be equal to 1.50 percent of the self-employment income for such taxable year.]

(2) in the case of any taxable year beginning after December 31, 1977, and before January 1, 1979, the tax shall be equal



to 1.00 percent of the amount of the self-employment income for such taxable year;

(3) in the case of any taxable year beginning after December 31, 1978, and before January 1, 1981, the tax shall be equal to 1.05 percent of the amount of the self-employment income for such taxable year;

(4) in the case of any taxable year beginning after December 31, 1980, and before January 1, 1985, the tax shall be equal to 1.25 percent of the amount of the self-employment income for such taxable year;

(5) in the case of any taxable year beginning after December 31, 1984, and before January 1, 1986, the tax shall be equal to 1.35 percent of the amount of the self-employment income for such taxable year; and

(6) in the case of any taxable year beginning after December 31, 1985, the tax shall be equal to 1.40 percent of the amount of the self-employment income for such taxable year.

(c) *RELIEF FROM TAXES IN CASES COVERED BY CERTAIN INTERNATIONAL AGREEMENTS.*—During any period in which there is in effect an agreement entered into pursuant to section 233 of the Social Security Act with any foreign country, the self-employment income of an individual shall be exempt from the taxes imposed by this section to the extent that such self-employment income is subject under such agreement to taxes or contributions for similar purposes under the social security system of such foreign country.

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## SUBTITLE C—EMPLOYMENT TAXES

### CHAPTER 21—FEDERAL INSURANCE CONTRIBUTIONS ACT

#### SUBCHAPTER A—TAX ON EMPLOYEES

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#### SEC. 3101. RATE OF TAX.

(a) *OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.*—In addition to other taxes, there is hereby imposed on the income of every individual a tax equal to the following percentages of the wages (as defined in section 3121(a)) received by him with respect to employment (as defined in section 3121(b))—

[(1) with respect to wages received during the calendar years 1974 through 2010, the rate shall be 4.95 percent; and

[(2) with respect to wages received after December 31, 2010, the rate shall be 5.95 percent.]

(1) with respect to wages received during the calendar years 1974 through 1977, the rate shall be 4.95 percent;

(2) with respect to wages received during the calendar year 1978, the rate shall be 5.05 percent;

(3) with respect to wages received during the calendar years 1979 and 1980, the rate shall be 5.085 percent;

(4) *with respect to wages received during the calendar years 1981 through 1984, the rate shall be 5.35 percent;*

(5) *with respect to wages received during the calendar years 1985 through 1989, the rate shall be 5.65 percent;*

(6) *with respect to wages received during the calendar years 1990 through 1994, the rate shall be 6.10 percent;*

(7) *with respect to wages received during the calendar years 1995 through 2000, the rate shall be 6.70 percent;*

(8) *with respect to wages received during the calendar years 2001 through 2010, the rate shall be 7.30 percent; and*

(9) *with respect to wages received after December 31, 2010, the rate shall be 7.80 percent.*

(b) **HOSPITAL INSURANCE.**—In addition to the tax imposed by the preceding subsection, there is hereby imposed on the income of every individual a tax equal to the following percentages of the wages (as defined in section 3121(a)) received by him with respect to employment (as defined in section 3121(b))—

(1) *with respect to wages received during the calendar years 1974 through 1977, the rate shall be 0.90 percent;*

[(2) *with respect to wages received during the calendar years 1978 through 1980, the rate shall be 1.10 percent;*

[(3) *with respect to wages received during the calendar years 1981 through 1985, the rate shall be 1.35 percent; and*

[(4) *with respect to wages received after December 31, 1985, the rate shall be 1.50 percent.*]

(2) *with respect to wages received during the calendar year 1978, the rate shall be 1.00 percent;*

(3) *with respect to wages received during the calendar years 1979 and 1980, the rate shall be 1.05 percent;*

(4) *with respect to wages received during the calendar years 1981 through 1984, the rate shall be 1.25 percent;*

(5) *with respect to wages received during the calendar year 1985, the rate shall be 1.35 percent; and*

(6) *with respect to wages received after December 31, 1985, the rate shall be 1.40 percent.*

(c) **RELIEF FROM TAXES IN CASES COVERED BY CERTAIN INTERNATIONAL AGREEMENTS.**—During any period in which there is in effect an agreement entered into pursuant to section 233 of the Social Security Act with any foreign country, wages received by or paid to an individual shall be exempt from the taxes imposed by this section to the extent that such wages are subject under such agreement to taxes or contributions for similar purposes under the social security system of such foreign country.

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## SUBCHAPTER B—TAX ON EMPLOYERS

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### SEC. 3111. RATE OF TAX.

(a) **OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE.**—In addition to other taxes, there is hereby imposed on every employer an excise



tax, with respect to having individuals in his employ, equal to the following percentages of the wages (as defined in section 3121(a)) paid by him with respect to employment (as defined in section 3121(b))—

[(1) with respect to wages paid during the calendar years 1974 through 2010, the rate shall be 4.95 percent; and

[(2) with respect to wages paid after December 31, 2010, the rate shall be 5.95 percent.]

*(1) with respect to wages paid during the calendar year 1974 through 1977, the rate shall be 4.95 percent;*

*(2) with respect to wages paid during the calendar year 1978, the rate shall be 5.05 percent;*

*(3) with respect to wages paid during the calendar years 1979 and 1980, the rate shall be 5.085 percent;*

*(4) with respect to wages paid during the calendar years 1981 through 1984, the rate shall be 5.35 percent;*

*(5) with respect to wages paid during the calendar years 1985 through 1989, the rate shall be 5.65 percent;*

*(6) with respect to wages paid during the calendar years 1990 through 1994, the rate shall be 6.10 percent;*

*(7) with respect to wages paid during the calendar years 1995 through 2000, the rate shall be 6.70 percent;*

*(8) with respect to wages paid during the calendar years 2001 through 2010, the rate shall be 7.30 percent; and*

*(9) with respect to wages paid after December 31, 2010, the rate shall be 7.80 percent.*

(b) HOSPITAL INSURANCE.—In addition to the tax imposed by the preceding subsection, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the following percentages of the wages (as defined in section 3121(a)) paid by him with respect to employment (as defined in section 3121(b))—

(1) with respect to wages paid during the calendar years 1974 through 1977, the rate shall be 0.90 percent;

[(2) with respect to wages paid during the calendar years 1978 through 1980, the rate shall be 1.10 percent;

[(3) with respect to wages paid during the calendar years 1981 through 1985, the rate shall be 1.35 percent; and

[(4) with respect to wages paid after December 31, 1985, the rate shall be 1.50 percent.]

*(2) with respect to wages paid during the calendar year 1978, the rate shall be 1.00 percent;*

*(3) with respect to wages paid during the calendar years 1979 and 1980, the rate shall be 1.05 percent;*

*(4) with respect to wages paid during the calendar years 1981 through 1984, the rate shall be 1.25 percent;*

*(5) with respect to wages paid during the calendar year 1985, the rate shall be 1.35 percent; and*

*(6) with respect to wages paid after December 31, 1985, the rate shall be 1.40 percent.*

(c) RELIEF FROM TAXES IN CASES COVERED BY CERTAIN INTERNATIONAL AGREEMENTS.—During any period in which there is in effect an



*agreement entered into pursuant to section 233 of the Social Security Act with any foreign country, wages received by or paid to an individual shall be exempt from the taxes imposed by this section to the extent that such wages are subject under such agreement to taxes or contributions for similar purposes under the social security system of such foreign country.*

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## SUBCHAPTER C—GENERAL PROVISIONS

### SEC. 3121. DEFINITIONS.

\* \* \* \* \*

#### (k) EXEMPTION OF RELIGIOUS, CHARITABLE, AND CERTAIN OTHER ORGANIZATIONS

(1) **WAIVER OF EXEMPTION BY ORGANIZATION.**—(A) An organization described in section 501(c)(3) which is exempt from income tax under section 501(a) may file a certificate (in such form and manner, and with such official, as may be prescribed by regulations made under this chapter) certifying that it desires to have the insurance system established by title II of the Social Security Act extended to service performed by its employees. Such certificate may be filed only if it is accompanied by a list containing the signature, address, and social security account number (if any) of each employee (if any) who concurs in the filing of the certificate. Such list may be amended at any time prior to the expiration of the twenty-fourth month following the calendar quarter in which the certificate is filed by filing with the prescribed official a supplemental list or lists containing the signature, address, and social security account number (if any) of each additional employee who concurs in the filing of the certificate. The list and any supplemental list shall be filed in such form and manner as may be prescribed by regulations made under this chapter.

(B) The certificate shall be in effect (for purposes of subsection (b)(8)(B) and for purposes of section 210(a)(8)(B) of the Social Security Act) for the period beginning with whichever of the following may be designated by the organization:

(i) the first day of the calendar quarter in which the certificate is filed,

(ii) the first day of the calendar quarter succeeding such quarter,

or

(iii) the first day of any calendar quarter preceding the calendar quarter in which the certificate is filed, except that, such date may not be earlier than the first day of the twentieth calendar quarter preceding the quarter in which such certificate is filed.

(C) In the case of service performed by an employee whose name appears on a supplemental list filed after the first month following the calendar quarter in which the certificate is filed, the certificate shall be in effect (for purposes of subsection (b)(8)(B) and for purposes of section 210(a)(8)(B) of the Social Security Act) only with respect to service performed by such individual for the period begin-

ning with the first day of the calendar quarter in which such supplemental list is filed.

(D) The period for which a certificate filed pursuant to this subsection or the corresponding subsection of prior law is effective may be terminated by the organization, effective at the end of a calendar quarter, upon giving 2 years' advance notice in writing, but only if, at the time of the receipt of such notice, the certificate has been in effect for a period of not less than 8 years. The notice of termination may be revoked by the organization by giving, prior to the close of the calendar quarter specified in the notice of termination, a written notice of such revocation. Notice of termination or revocation thereof shall be filed in such form and manner, and with such official, as may be prescribed by regulations made under this chapter.

(E) If an organization described in subparagraph (A) employs both individuals who are in positions covered by a pension, annuity, retirement, or similar fund or system established by a State or by a political subdivision thereof and individuals who are not in such positions, the organization shall divide its employees into two separate groups. One group shall consist of all employees who are in positions covered by such a fund or system and (i) are members of such fund or system, or (ii) are not members of such fund or system but are eligible to become members thereof, and the other group shall consist of all remaining employees. An organization which has so divided its employees into two groups may file a certificate pursuant to subparagraph (A) with respect to the employees in either group, or may file a separate certificate pursuant to such subparagraph with respect to the employees in each group.

(F) If a certificate filed pursuant to this paragraph is effective for one or more calendar quarters prior to the quarter in which the certificate is filed, then—

(i) for purposes of computing interest and for purposes of section 6651 (relating to addition to tax for failure to file tax return or pay tax), the due date for the return and payment of the tax for such prior calendar quarters resulting from the filing of such certificate shall be the last day of the calendar month following the calendar quarter in which the certificate is filed; and

(ii) the statutory period for the assessment of such tax shall not expire before the expiration of 3 years from such due date.

(2) **TERMINATION OF WAIVER PERIOD BY SECRETARY.**—If the Secretary finds that any organization which filed a certificate pursuant to this subsection or the corresponding subsection of prior law has failed to comply substantially with the requirements applicable with respect to the taxes imposed by this chapter or the corresponding provisions of prior law or is no longer able to comply with the requirements applicable with respect to the taxes imposed by this chapter, the Secretary shall give such organization not less than 60 days' advance notice in writing that the period covered by such certificate will terminate at the end of the calendar quarter specified in such notice. Such notice of termination may be revoked by the Secretary by giving, prior to the close of the calendar quarter specified in the notice of termination, written notice of such revocation to the organization. No notice of termination or of revocation thereof shall be given under this paragraph to orga-

nization without the prior concurrence of the Secretary of Health, Education, and Welfare.

(3) **NO RENEWAL OF WAIVER.**—In the event the period covered by a certificate filed pursuant to this subsection or the corresponding subsection of prior law is terminated by the organization, no certificate may again be filed by such organization pursuant to this subsection.

(4) **CONSTRUCTIVE FILING OF CERTIFICATE WHERE NO REFUND OR CREDIT OF TAXES HAS BEEN MADE.**—(A) In any case where—

“(i) an organization described in section 501(c)(3) which is exempt from income tax under section 501(a) has not filed a valid waiver certificate under paragraph (1) of this subsection (or under the corresponding provision of prior law) as of the date of the enactment of this paragraph [or any subsequent date] (or, if later, as of the earliest date on which it satisfies clause (ii) of this subparagraph) but

(ii) the taxes imposed by sections 3101 and 3111 have been paid with respect to the remuneration paid by such organization to its employees, as though such a certificate had been filed, during any period (subject to subparagraph (B)(i)) of not less than three consecutive calendar quarters,

such organization shall be deemed (except as provided in subparagraph (B) of this paragraph) for purposes of subsection (b)(8)(B) and section 210(a)(8)(B) of the Social Security Act, to have filed a valid waiver certificate under paragraph (1) of this subsection (or under the corresponding provision of prior law) on the first day of the period described in clause (ii) of this subparagraph effective (subject to subparagraph (C)) on the first day of the calendar quarter in which such period began, and to have accompanied such certificate with a list containing the signature, address, and social security number (if any) of each employee with respect to whom the taxes described in such subparagraph were paid (and each such employee shall be deemed for such purposes to have concurred in the filing of the certificate).

(B) Subparagraph (A) shall not apply with respect to any organization if—

(i) the period referred to in clause (ii) of such subparagraph (in the case of that organization) terminated before the end of the earliest calendar quarter falling wholly or partly within the time limitation (as defined in section 205(c)(1)(B) of the Social Security Act) immediately preceding the date of the enactment of this paragraph, or

(ii) a refund or credit of any part of the taxes which were paid as described in clause (ii) of such subparagraph with respect to remuneration for services performed on or after the first day of the earliest calendar quarter falling wholly or partly within the time limitation (as defined in section 205(c)(1)(B) of the Social Security Act) immediately preceding the date of enactment of this paragraph (other than a refund or credit which would have been allowed if a valid waiver certificate filed under paragraph (1) had been in effect) has been obtained by the organization or its employees prior to September 9, 1976.



(C) In the case of any organization which is deemed under this paragraph to have filed a valid waiver certificate under paragraph (1), if—

(i) the period with respect to which the taxes imposed by sections 3101 and 3111 were paid by such organization (as described in subparagraph (A) (ii)) terminated prior to October 1, 1976, or

(ii) the taxes imposed by sections 3101 and 3111 were not paid during the period referred to in clause (i) (whether such period has terminated or not) with respect to remuneration paid by such organization to individuals who became its employees after the close of the calendar quarter in which such period began, taxes under sections 3101 and 3111—

(iii) in the case of an organization which meets the requirements of this subparagraph by reason of clause (i), with respect to remuneration paid by such organization after the termination of the period referred to in clause (i) and prior to July 1, 1977; or

(iv) in the case of an organization which meets the requirements of this subparagraph by reason of clause (ii), with respect to remuneration paid prior to July 1, 1977, to individuals who became its employees after the close of the calendar quarter in which the period referred to in clause (i) began,

which remain unpaid on the date of the enactment of this subparagraph, or which were paid after October 19, 1976, but prior to the date of the enactment of this subparagraph, shall not be due or payable (or, if paid, shall be refunded); and the certificate which such organization is deemed under this paragraph to have filed shall not apply to any service with respect to the remuneration for which the taxes imposed by sections 3101 and 3111 (which remain unpaid on the date of the enactment of this subparagraph, or were paid after October 19, 1976, but prior to the date of the enactment of this subparagraph) are not due and payable (or are refunded) by reason of the preceding provisions of this subparagraph. In applying this subparagraph for purposes of title II of the Social Security Act, the period during which reports of wages subject to the taxes imposed by sections 3101 and 3111 were made by any organization may be conclusively treated as the period (described in subparagraph (A) (ii)) during which the taxes imposed by such sections were paid by such organization.

(5) CONSTRUCTIVE FILING OF CERTIFICATE WHERE REFUND OR CREDIT HAS BEEN MADE AND NEW CERTIFICATE IS NOT FILED.—In any case where—

(A) an organization described in section 501(c)(3) which is exempt from income tax under section 501(a) would be deemed under paragraph (4) of this subsection to have filed a valid waiver certificate under paragraph (1) if it were not excluded from such paragraph (4) (pursuant to subparagraph (B) (ii) thereof) because a refund or credit of all or a part of the taxes described in paragraph (4) (A) (ii) was obtained prior to September 9, 1976; and

(B) such organization has not, [prior to the expiration of 180 days after the date of the enactment of this paragraph.] prior to January 1, 1978, filed a valid waiver certificate under paragraph (1) which is effective for a period beginning on or before the first

day of the first calendar quarter with respect to which such refund or credit was made (or, if later, with the first day of the earliest calendar quarter for which such certificate may be in effect under paragraph (1)(B)(iii)) and which is accompanied by the list described in paragraph (1)(A),

such organization shall be deemed, for purposes of subsection (b)(8)(B) and section 210(a)(8)(B) of the Social Security Act, to have filed a valid waiver certificate under paragraph (1) of this subsection on [the 181st day after the date of the enactment of this paragraph,] *January 1, 1978*, effective for the period beginning on the first day of the first calendar quarter with respect to which the refund or credit referred to in subparagraph (A) of this paragraph was made (or, if later, with the first day of the earliest calendar quarter falling wholly or partly within the time limitation (as defined in section 205(c)(1)(B) of the Social Security Act) immediately preceding the date of the enactment of this paragraph), and to have accompanied such certificate with a list containing the signature, address, and social security number (if any) of each employee described in subparagraph (A) of paragraph (4) including any employee with respect to whom taxes were refunded or credited as described in subparagraph (A) of this paragraph (and each such employee shall be deemed for such purposes to have concurred in the filing of the certificate). A certificate which is deemed to have been filed by an organization on [such 181st day] *January 1, 1978*, shall supersede any certificate which may have been actually filed by such organization prior to that day except to the extent prescribed by the Secretary or his delegate.

(6) APPLICATION OF CERTAIN PROVISIONS TO CASES OF CONSTRUCTIVE FILING.—All of the provisions of this subsection (other than subparagraphs (B), (F), and (H) of paragraph (1)), including the provisions requiring payment of taxes under sections 3101 and 3111 with respect to the services involved (*except as provided in paragraph (4)(c)*), shall apply with respect to any certificate which is deemed to have been filed by an organization on any day under paragraph (4) or (5), in the same way they would apply if the certificate had been actually filed on that day under paragraph (1); except that—

(A) the provisions relating to the filing of supplemental lists of concurring employees in the third sentence of paragraph (1)(A), and in paragraph (1)(C), shall apply to the extent prescribed by the Secretary;

(B) the provisions of paragraph (1)(E) shall not apply unless the taxes described in paragraph (4)(A)(ii) were paid by the organization as though a separate certificate had been filed with respect to one or both of the groups to which such provisions relate; and

(C) the action of the organization in obtaining the refund or credit described in paragraph (5)(A) shall not be considered a termination of such organization's coverage period for purposes of paragraph (3). Any organization which is deemed to have filed a waiver certificate under paragraph (4) or (5) shall be considered for purposes of section 3102(b) to have been required to deduct the taxes imposed by section 3101 with respect to the services involved.



(7) BOTH EMPLOYEE AND EMPLOYER TAXES PAYABLE BY ORGANIZATION FOR RETROACTIVE PERIOD IN CASES OF CONSTRUCTIVE FILING.—Notwithstanding any other provision of this chapter, in any case where an organization described in paragraph (5)(A) has not filed a valid waiver certificate under paragraph (1) [prior to the expiration of 180 days after the date of the enactment of this paragraph] *prior to January 1, 1978*, and is accordingly deemed under paragraph (5) to have filed such a certificate on [the 181st day after such date,] *January 1, 1978*, the taxes due under section 3101, with respect to services constituting employment by reason of such certificate for any period [prior to the first day of the calendar quarter in which such 181st day occurs] *prior to that date* (along with the taxes due under section 3111 with respect to such services and the amount of any interest paid in connection with the refund or credit described in paragraph (5)(A)) shall be paid by such organization from its own funds and without any deduction from the wages of the individuals who performed such services; and those individuals shall have no liability for the payment of such taxes.

[(8) EXTENDED PERIOD FOR PAYMENT OF TAXES FOR RETROACTIVE COVERAGE.—Notwithstanding any other provision of this title, in any case where an organization described in paragraph (5)(A) files a valid waiver certificate under paragraph (1) by the end of the 180-day period following the date of the enactment of this paragraph as described in paragraph (5)(B), or (not having filed such a certificate within that period) is deemed under paragraph (5) to have filed such a certificate on the 181st day following that date, the taxes due under sections 3101 and 3111 with respect to services constituting employment by reason of such certificate for any period prior to the first day of the calendar quarter in which the date of such filing or constructive filing occurs may be paid in installments over an appropriate period of time, as determined under regulations prescribed by the Secretary or his delegate, rather than in a lump sum.]

(8) EXTENDED PERIOD FOR PAYMENT OF TAXES FOR RETROACTIVE COVERAGE.—*Notwithstanding any other provision of this title, in any case where—*

(A) *an organization is deemed under paragraph (4) to have filed a valid waiver certificate under paragraph (1), but the applicable period described in paragraph (4)(A)(ii) has terminated and part or all of the taxes imposed by sections 3101 and 3111 with respect to remuneration paid by such organization to its employees after the close of such period remains payable notwithstanding paragraph (4)(C), or*

(B) *an organization described in paragraph (5)(A) files a valid waiver certificate under paragraph (1) by December 31, 1977, as described in paragraph (5)(B), or (not having filed such a certificate by that date) is deemed under paragraph (5) to have filed such a certificate on January 1, 1978, or*

(C) *an individual files a request under section 3 of Public Law 94-563, or under section 3 of the Act which added paragraph (4)(C) of this subsection, to have service treated as constituting remuneration for employment (as defined in section 3121(b) and in section 210(a) of the Social Security Act),*



*the taxes due under sections 3101 and 3111 with respect to services constituting employment by reason of such certificate for any period prior to the first day of the calendar quarter in which the date of such filing or constructive filing occurs, or with respect to service constituting employment by reason of such request, may be paid in installments over an appropriate period of time, as determined under regulations prescribed by the Secretary, rather than in a lump sum.*

\* \* \* \* \*

(s) *CONCURRENT EMPLOYMENT BY TWO OR MORE EMPLOYERS.—For purposes of sections 3102, 3111 and 3121(a)(1), if two or more corporations concurrently employ the same individual and compensate such individual through a common paymaster, each such corporation shall be considered to have paid as remuneration to such individual only the amounts actually disbursed by it to such individual and shall not be considered to have paid as remuneration to such individual amounts actually disbursed to such individual by another of such corporations.*

## CHAPTER 23—FEDERAL UNEMPLOYMENT TAX ACT

### SEC. 3304. APPROVAL OF STATE LAWS.

(a) *REQUIREMENTS.*—The Secretary of Labor shall approve any State law submitted to him, within 30 days of such submission, which he finds provides that—

\* \* \* \* \*

(16) (A) *wage information contained in the records of the agency administering the State law which is necessary (as determined by the Secretary of Health, Education, and Welfare in regulations) for purposes of determining an individual's eligibility for aid or services, or the amount of such aid or services, under a State plan for aid and services to needy families with children approved under part A of title IV of the Social Security Act, shall be made available to a State or political subdivision thereof, when such information is specifically requested by such State or political subdivision for such purpose, and*

(B) *such safeguards are established as are necessary (as determined by the Secretary of Health, Education, and Welfare in regulations) to insure that such information is used only for the*

[(16)] (17) *all the rights, privileges, or immunities conferred by such law or by acts done pursuant thereto shall exist subject to the power of the legislature to amend or repeal such law at any time.*

(b) *NOTIFICATION.*—The Secretary of Labor shall, upon approving such law, notify the governor of the State of his approval.

\* \* \* \* \*

### SEC. 3306. DEFINITIONS.

\* \* \* \* \*

(p) *CONCURRENT EMPLOYMENT BY TWO OR MORE EMPLOYERS.—For purposes of sections 3301, 3302 and 3306(b)(1), if two or more cor-*

*porations concurrently employ the same individual and compensate such individual through a common paymaster, each such corporation shall be considered to have paid as remuneration to such individual only the amounts actually disbursed by it to such individual and shall not be considered to have paid as remuneration to such individual amounts actually disbursed to such individual by another of such corporations.*

\* \* \* \* \*

**SUBTITLE F—PROCEDURE AND ADMINISTRATION**  
**CHAPTER 61. INFORMATION AND RETURNS**  
**SUBCHAPTER A. RETURNS AND RECORDS**

\* \* \* \* \*

**PART III. INFORMATION RETURNS**

\* \* \* \* \*

**SUBPART C. INFORMATION REGARDING WAGES PAID  
EMPLOYEES**

**SEC. 6051. RECEIPTS FOR EMPLOYEES.**

(a) REQUIREMENT.—Every person required to deduct and withhold from an employee a tax under section 3101 or 3402 or who would have been required to deduct and withhold a tax under section 3402 (determined without regard to subsection (n)) if the employee had claimed no more than one withholding exemption, or every employer engaged in a trade or business who pays remuneration for services performed by an employee, including the cash value of such remuneration paid in any medium other than cash, shall furnish to each such employee in respect of the remuneration paid by such person to such employee during the calendar year, on or before January 31 of the succeeding year, or, if his employment is terminated before the close of such calendar year, on the day on which the last payment of remuneration is made, a written statement showing the following:

- (1) the name of such person,
- (2) the name of the employee (and his social security account number if wages as defined in section 3121(a) have been paid),
- (3) the total amount of wages as defined in section 3401(a),
- (4) the total amount deducted and withheld as tax under section 3402,
- (5) the total amount of wages as defined in section 3121(a),
- and
- (6) the total amount deducted and withheld as tax under section 3101.

In the case of compensation paid for service as a member of a uniformed service, the statement shall show, in lieu of the amount required to be shown by paragraph (5), the total amount of wages as defined in section 3121(a), computed in accordance with such section and section 3121(i) (2). In the case of compensation paid for service as a volunteer or volunteer leader within the meaning of the Peace

Corps Act, the statement shall show, in lieu of the amount required to be shown by paragraph (5), the total amount of wages as defined in section 3121(a), computed in accordance with such section and section 3121(i)(3).

In the case of tips received by an employee in the course of his employment, the amounts required to be shown by paragraphs (3) and (5) shall include only such tips as are included in statements furnished to the employer pursuant to section 6053(a). *The amounts required to be shown by paragraph (5) shall not include wages which are exempted pursuant to sections 3101(c) and 3111(c) from the taxes imposed by sections 3101 and 3111.*

\* \* \* \* \*

### Excerpts from Public Law 92-603 (Social Security Amendments Act of 1972)

\* \* \* \* \*

#### Age-62 Computation Point for Men

\* \* \* \* \*

(j)(1) The amendments made by this section (except the amendment made by subsection (i), and the amendment made by subsection (g) to section 209(i) of the Social Security Act) shall apply only in the case of a man who attains (or would attain) age 62 after December 1974. The amendment made by subsection (i), and the amendment made by subsection (g) to section 209(i) of the Social Security Act, shall apply only with respect to payments after 1974.

(2) In the case of a man who attains age 62 prior to 1975, the number of his elapsed years for purposes of section 215(b) [(3)](2) (B) (iii) of the Social Security Act shall be equal to (A) the number determined under such section as in effect on September 1, 1972, or (B) if less, the number determined as though he attained age 65 in 1975, except that monthly benefits under title II of the Social Security Act for months prior to January 1973 payable on the basis of his wages and self-employment income shall be determined as though this section had not been enacted.

\* \* \* \* \*

### Excerpts From Public Law 94-563

\* \* \* \* \*

#### Sec. 3. In any case where—

(1) an individual performed service, as an employee of an organization which is deemed under section 3121(k)(5) of the Internal Revenue Code of 1954 to have filed a waiver certificate under section 3121(k)(1) of such Code, at any time prior to the period for which such certificate is effective;

(2) the taxes imposed by sections 3101 and 3111 of such Code were paid with respect to remuneration paid for such service, but such service (or any part thereof) does not constitute employ-



ment (as defined in section 210(a) of the Social Security Act and section 3121(b) of such Code) because the applicable taxes so paid were refunded or credited (otherwise than through a refund or credit which would have been allowed if a valid waiver certificate filed under section 3121(k) (1) of such Code had been in effect) prior to September 9, 1976; and

(3) any portion of such service (with respect to which taxes were paid and refunded or credited as described in paragraph (2)) would constitute employment (as so defined) if the organization had actually filed under section 3121(k) (1) of such Code a valid waiver certificate effective as provided in section 3121(k) (5) (B) thereof (with such individual's signature appearing on the accompanying list),

the remuneration paid for the portion of such service described in paragraph (3) shall, upon the request of such individual (filed *on or before April 15, 1980*, in such manner and form, and with such official, as may be prescribed by regulations made under title II of the Social Security Act) accompanied by full repayment of the taxes which were paid under section 3101 of such Code with respect to such remuneration and so refunded or credited (*or by satisfactory evidence that appropriate arrangements have been made for the repayment of such taxes in installments as provided in section 3121(k) (8) of such Code*), be deemed to constitute remuneration for employment as so defined. In any case where remuneration paid by an organization to an individual is deemed under the preceding sentence to constitute remuneration for employment, such organization shall be liable (notwithstanding any other provision of such Code) for repayment of any taxes which it paid under section 3111 of such Code with respect to such remuneration and which were refunded or credited to it.

Approved October 19, 1976.

## VII. MINORITY VIEWS OF SENATORS CARL T. CURTIS, CLIFFORD P. HANSEN, ROBERT DOLE, AND PAUL LAXALT

The social security system is in financial trouble because for years the Congress has permitted benefit liberalizations to outpace revenues. Other demographic and economic factors joined to place the system in financial peril, so that virtually all agree that action must be taken to restore its fiscal health.

However, action should not be precipitate or foolhardy. It should not be disruptive of sharing relationships which have existed since the inception of the program. It should not fall heavily and inequitably upon certain sectors of the economy. It should not attempt to mask the real cost of making the system whole.

Most regrettably, the provisions of the bill reported by the Senate Finance Committee—which were approved by a single vote margin in the committee—violate all of these principles. It is a completely unacceptable way to resolve the problems of social security, and its current approach should be rejected by the Senate.

The keystone of the approach in the measure is a unilateral increase in the wage base on which contributions are calculated, for the employer only, to \$50,000 in 1979 and to \$75,000 in 1985. In a sharp break with precedent and tradition, the bill delivers massive financial blows to the very sector of the economy which is charged with the responsibility of providing sufficient jobs and capital formation in a critical period in our Nation's history.

Specifically, to date, employers and employees have shared equally in the costs of funding social security; present requirements are that each contribute 5.85 percent of the first \$16,500 earned by the employee. Under the measure reported by the committee, only modest wage base increases—four \$600 increments in 1979, 1981, 1983, and 1985—will be experienced by the employee. The employer, however, will have to pay social security taxes on the first \$50,000 of individual covered wages, between 1979 and 1985, and that figure will be increased to \$75,000 in 1985.

The sharp impact upon firms, particularly those employing individuals in critically needed higher income specialties, could not be more obvious.

The cost in additional OASDHI taxes, over present law, of the wage base increases contained in the committee bill is as follows:

[In millions]

	Employer	Percent	Employee	Percent
1979.....	\$2,396	93.0	\$179	7.0
1980.....	7,360	92.2	625	7.8
1981.....	7,855	90.4	835	9.6
1982.....	8,304	86.8	1,263	13.2
1983.....	8,503	85.5	1,443	14.5
5-yr average.....	6,884	88.8	869	11.2

In other words, in 1979, the employer sector will sustain an increase of \$2.4 billion in social security contributions because of the wage base increase alone (compared with \$179 million by employees). By 1983, increases required by the rise in the base will have grown to \$8.5 billion for employers versus \$1.4 billion for employees.

The total amount of additional OASDI and HI taxes paid by employers and employees under the committee bill is as follows:

	Total	Employers		Employees	
		Amount	Percent	Amount	Percent
Calendar year:					
1979.....	\$8.3	\$7.1	85	\$1.2	15
1980.....	10.0	8.6	86	1.4	14
1981.....	16.2	11.8	73	4.3	27
1982.....	17.2	12.4	72	4.8	28
1983.....	18.3	12.9	70	5.5	30
5-yr average.	14.0	10.6	76	3.4	24

Rather than the historic 50 percent-50 percent sharing ratio, the two sectors will stand in a 76 percent-24 percent relationship over the next 5 years. By 1985, when the ceiling on the employer wage base is increased to \$75,000, the disparity should become even more pronounced.

In a survey conducted by the Chamber of Commerce of the United States, on a similar plan,<sup>1</sup> over two-thirds of the respondents estimated an increase of over 10 percent in their social security tax. Twenty-seven percent estimated an increase of over 20 percent, and 15 percent said that their taxes would rise by more than 30 percent. Seventy-nine respondents forecasted an increase of over 100 percent in their social security taxes.

Additionally, these increases fall with a significant amount of disparity and inequity, depending upon the type of firm and the wage levels of their particular employees. Another survey, conducted by the minority, of 65 firms, colleges, and universities, found the following projected increased costs:

<sup>1</sup> A number of the estimates on the economic effect of the provisions of the committee bill are based upon the earlier level of \$100,000 for the employer portion of the wage base, except where specifically otherwise stated. As noted in the text, however, the difference in economic effect—because most of the jobs affected are grouped between the currently scheduled \$18,900 and \$50,000, not above it—is negligible.



A major private university in the State of New York: \$1.3 million.

A leading national rubber company: \$6 million.

A major trunk airline, based in the Southeast: \$11 million.

A Nebraska-based major construction company: \$2.8 million.

A Midwestern State university: \$1.4 million.

A textile company in the South: \$2 million.

A leading manufacturer of copymaking equipment, headquartered in Connecticut: \$27 million.

Two Texas-based national oil companies: \$9.1 million and \$20 million, respectively.

Two Oregon educational facilities: \$2 million and \$693,000, respectively.

These are simply representative of the deleterious effect the type of provisions contained in the committee bill will have upon major segments of the American economy.

And it is foolish to believe that American taxpayers will not, ultimately, be paying the resultant cost. They will pay it through increased prices, reduced wages and/or employee benefits, more limited employment opportunities, and delays in planned expansion. Sixty-eight percent of those participating in the chamber survey indicated they would be forced to increase prices to meet the increase in their social security taxes. Over half said they would have to hold down increases in wages and/or employee benefits.

Econometric models run on the earlier Finance Committee plan, raising the employer portion of the wage base to \$100,000, revealed that real GNP would be cut by \$12.8 billion in 1980 and by \$38.5 billion in 1985. Real disposable income would be down, in 1980, by \$12.3 billion, and in 1985, by \$38.4 billion. The effect on employment was forecast at 400,000 fewer jobs in 1980 and 1,200,000 fewer jobs in 1985. Investment would be down by \$5 billion in 1980 and by \$16.2 billion in 1985. There is little reason to believe that the economic effects of the committee-approved plan will be any less serious: for increasing the wage base to \$50,000 in 1979 and \$75,000 in 1985 should cover most, if not all, employee salary levels. In 1979, under the provisions adopted in the committee bill, we estimate that the \$5 billion in higher tax collections from wages between the currently scheduled \$18,900 and \$50,000 will cost \$3 billion in reduced business investment, 200,000 fewer jobs, an increase in wage costs of 0.5 percent, and an increase in consumer prices of 0.4 percent. To maintain that the approved levels are any improvement over the original proposal of an employer wage base level of \$100,000 is specious.

Surely, the wage base provisions of the committee bill continue to be an inequitable and undesirable solution to the social security problem.

It is equally fallacious to contend, as proponents of the bill do, that the break in this historic equal sharing relationship between employer and employee is only temporary, and that "the wage base for the employee is only temporary, and that "the wage base for the employee will catch up to that of the employer in 2002." Once the break has been made, it will be difficult if not impossible for future Congresses to resist the same illusory expediency that led to the current action, and in the event the bill is adopted in its current form, it is most like that parity never again will be restored.

Employees in the affected industries will not gain a corresponding increase in their benefits, as has been the case in the past when wage bases have been increased. Only modifications in the employee portion of the wage base cause corresponding increases in benefits; those located in industries who are forced to pay the disproportionate share of social security financing under the committee mechanism will derive no benefit at all from the added contribution made in their behalf.

Finally, increasing the taxable wage base narrows, in a most undesirable fashion, the role of private retirement savings efforts. This poses a threat to the long-range future of private pension systems, and therefore is a threat to a major source of equity capital for the future.

Rather than the kind of gimmickry represented in the committee bill, the social security system can and should be financed by straightforward methods which are simple, easy to understand, and are acceptable to both beneficiaries and contributors as necessary and desirable to restore the fiscal solvency of social security. Through either a very small tax rate increase alone (e.g., 0.2 percent in 1979 and 0.3 percent in 1980), followed by rate increases no larger than those already contained in the committee bill for the years from 1985-2011 (and incorporating the other major provisions, such as decoupling), both the short-range and the long-range problems of the trust funds could be completely resolved. Alternatively, the tax rate increase could be slightly smaller in the initial years (e.g., 0.25 percent in 1979, with no increase in 1980), and very slight—and equal—increases in the wage base for both employers and employees could be included (e.g., the four \$600 increments that are in the committee bill presently for employees alone), and the result would be virtually the same: fiscal soundness for the trust funds.<sup>2</sup>

It should be possible, after the months and years of detailed consideration of the issue of social security financing, to develop and propose to the American people a solution which is based upon the fundamental principles of:

- retaining the historic equal sharing relationship between employer and employee in the funding of the program, and
- establishing a method of financing that does not attempt to hide the true costs of social security.

It is most unfortunate that the bill reported from the committee adheres to neither of these essential precepts. Were the alternatives which were available to the committee so onerous, or so difficult to implement, that they were not realistic or viable, we could understand the action which was taken. The fact is, however, that numerous alternatives were presented which would have been realistic and practical and could be implemented without undue hardship. Adoption of any one of these rather than the ill-conceived plan contained in the committee bill—infinity would better serve the needs of the social security system and the American people.

CARL T. CURTIS.  
CLIFFORD P. HANSEN.  
ROBERT DOLE.  
PAUL LAXALT.

<sup>2</sup> The level of increased taxes by the average social security wage base earner in 1979 would be only \$23 under the first plan and \$29 under the second—surely affordable levels.

## VIII. ADDITIONAL VIEWS OF SENATORS ROBERT DOLE AND WILLIAM V. ROTH, JR.

There is no question that the social security trust funds, after years of legislative liberalizations without accompanying revenue measures, is in need of corrective action to make it fiscally sound. We question, however, whether those who now must bear the burden of financing social security—the working men and women of America—should be asked to assume such massive burdens that the legislation currently under consideration would impose.

These social security taxpayers recognize the necessity of continuing to make the system sound for the currently retired. They also look with concern to the day when they, too, will begin receipt of Social Security. They also look with mounting concern at the escalating demands government is imposing upon their paychecks, for they must—rightly—be concerned with cash flow in a time of increasing financial difficulty for so many.

We believe:

- that the social security system should be operated as carefully, and as soundly, as any private system;

- that constantly increasing tax demands, either through the tax rate or the wage base, is not the answer;

- that we must look to the beneficiary composition, the benefit structure, and the relationship between Social Security and other public and private programs to assess the most rational way of bringing fiscal sanity to this program; and

- that the Congress should not move into hasty enactment of tax or wage base increases until the kind of careful analysis described is completed.

In the minds of many, social security is synonymous with planning safely for retirement. In the minds of others, it is a program that has grown out of control, threatening their very ability to meet its mounting drain upon their take-home pay. For many in the latter group, social security taxes may consume more of their income than direct taxes on that income itself.

We owe it to both of these groups to do a thorough and complete job of reforming the social security system. We do not believe that either the Committee bill, or the House-passed legislation, accomplishes this critical goal. Much more creative thinking needs to go into the range of alternatives which are possible in this important area.

BOB DOLE.

WILLIAM V. ROTH, Jr.



## IX. ADDITIONAL VIEWS OF SENATOR JOHN C. DANFORTH

I have voted to report H.R. 5322 to the floor despite my serious concerns about the method of social security financing approved by the committee. There is no question that over \$70 billion must be raised in the next 5 years if the social security trust funds are to be put on a sound financial basis. For this reason, I have voted to report the bill on the theory that almost any method of raising the revenue is better than no method at all. However, for the reasons set forth in these separate views, I do not believe the program contained in this bill is well conceived.

The financing proposals in this bill coupled with the already scheduled increases will cause social security taxes to rise drastically in the next few years. The State and local governments and nonprofit organizations alone will experience a tax increase of 227 percent in the next 10 years. H.R. 5322 provides some limited fiscal relief for these entities, but, as I set forth below, it is ill-designed relief, arbitrarily excluding many organizations from its scope, and is much too limited.

### I. INCREASING THE EMPLOYER'S WAGE BASE TO \$50,000 IN 1979 AND \$75,000 IN 1985 INTRODUCES ARBITRARY AND CAPRICIOUS DISTINCTIONS AMONG EMPLOYERS AND FAILS TO TAX ON THE BASIS OF ABILITY TO PAY

Heretofore, the social security tax has been imposed one-half on the employer and one-half on the employee up to a specified wage base, currently at \$16,500. The tax collected has had a direct relationship to the benefits to which the employee has been entitled.

Under the committee proposal to increase the employer's wage base, the employer will have an additional tax burden which in no way increases the benefits of his employees. The additional tax, then, is not a social security contribution geared to social security benefits, but a general tax.

I oppose pegging this general tax to salary levels without regard to profits, because it produces arbitrary and capricious results. The proposal penalizes the employer who has a generous and liberal wage policy and rewards his competitor who has resisted wage increases. The employer with the liberal wage policy now will have to bear a substantial additional tax burden from which his less generous competitor is exempt. In this regard, it should be noted that we are not talking about salaries of top executives, but salaries above the wage base—\$16,500—the salary of plumbers in St. Louis, Mo.

Two manufacturing firms in Louisiana illustrate the problem. Each has over 100 employees. As a result of this provision, the tax liability of one will be increased 98.7 percent; the other only 42 percent. It would

be difficult to convince the first employer that his tax increase is not excessive or that he is receiving equal tax treatment.

Further, differing wage structures in various regions in the country and from industry to industry will produce inequitable results under the proposal. Employers who have older, more experienced workers, and employers who are engaged in labor-intensive enterprises will have to bear more than their fair share of the tax burden. Employers in capital-intensive enterprises and those who have younger, less skilled or part-time workers will bear a smaller burden. I know of no public policy which would justify differences in tax treatment on these grounds.

I recognize that the American public will have to bear a substantial financial burden in providing the \$70 billion shortfall in social security. However, there is something fundamentally wrong where the method chosen to raise the funds causes tax increases of more than 100 percent on some employers and no or very little tax increase on many others. Thus, a manufacturer in Nebraska reports that he will have a 118-percent increase as a direct result of the proposed base increase. Similarly, a Colorado wholesaler calculates a tax increase of 118 percent. In contrast, a Georgia construction company calculates that its increase will be only 0.006 percent as a result of this proposal.

These widely varying tax increases are wholly unrelated to profits. An employer with a tax increase of over 100 percent may be operating at a loss whereas an employer with little or no tax increase may be enjoying substantial profits. I suggest that where the tax bears no relationship to either the employee's benefits or the employer's profits, then the tax could just as well be imposed on the basis of typewriters, trucks, or inventory.

I also oppose the proposal because of the effect it has on low-income workers and the economy in general. There appears to be an implicit assumption underlying this bill that where the tax is imposed directly on the employer and does not decrease the take-home pay of the worker, the worker wholly escapes the economic burden of the tax. This view is fallacious.

The Joint Economic Committee, in its 1977 Midyear Review of the Economy, dated September 26, 1977, makes clear that a higher employer payroll tax will be shifted backward in the form of lower wages or forward in the form of higher prices, or both. Moreover, as the Joint Economic Committee points out, this shift has a very serious effect on inflation and unemployment. The committee's overall conclusion is that increasing the employer's social security tax by raising the wage base will ultimately reduce the level of both production and employment.

## II. RAISING THE TAX AND BASE ON EMPLOYEES IS REGRESSIVE TAXATION AND HAS ITS GREATEST IMPACT ON LOW- AND MIDDLE-INCOME WAGE EARNERS; AND WILL COMPEL STATES, LOCAL GOVERNMENTS, AND NONPROFIT ORGANIZATIONS TO WITHDRAW FROM SOCIAL SECURITY

The social security tax is a regressive tax. According to the administration, at present *more than half of all taxpayers pay more in social*

*security tax than in Federal income tax.* In 1976, payroll taxes represented 32 percent of total Federal receipts. Yet, at a time when we are talking about substantially reducing the Federal income tax rates, our most progressive tax, the committee has proposed increasing the present social security tax rate by 20 percent in the next 8 years as well as increasing the base against which the taxes are assessed.

These rate and base increases emphasize and increase the unfair and regressive aspects of the present social security tax. Although an increase in the base does not increase the taxes paid by those below the base, it substantially increases the tax paid by those slightly above the base, currently at \$16,500. For example, the effect of the committee's action with respect to base increases alone on persons earning only \$2,400 above the current base will be to increase their taxes by 15 percent by 1985. Therefore, in combination with the rate increases, these persons face social security tax increases of 35 percent.

I also oppose this proposal because of the heavy burden on State and local governments. By 1987—only 10 years from now—this group of employers will suffer social security tax increases of over 200 percent. Most of the increase will result from rate increases. Less than 7 percent of the increase results from lifting the wage base on employers. Thus, most of the increase will be borne without the benefit of the committee's fiscal relief provision. New Haven, Conn., estimates an increase of \$40,000 in its social security tax by 1979 alone, an increase of almost 20 percent. The entire amount results from the rate increases. Similarly, Savannah, Ga., will have to pay an additional \$48,500 in social security taxes in 1979 over what it is now paying. Only a very small portion of the increase results from the increase in the employer wage base: it is almost entirely a result of the rate increases.

Nonprofit organizations as a group also will have substantial increases under this proposal. This group's liability under social security will also increase over 200 percent by 1987. The Salvation Army in the Greater Washington, D.C., area, covering Virginia, one-half of West Virginia and parts of Maryland, calculates it will have to pay social security taxes of almost \$86,000 in 1979 as a result of the committee's proposals, an increase of almost \$13,000. All but \$15 of that \$13,000 increase is a result of the rate increases. Similarly, the Washington, D.C., Campfire Girls calculates it will have an increase of 40 percent in its social security taxes in 1979, all of it attributable to the rate increases. These organizations are not in a position to absorb tax increases of this magnitude.

### III. WAGE INDEXING IS MORE EXPENSIVE THAN PRICE INDEXING AND EXCLUDES CURRENT RETIREES FROM SHARING IN AMERICA'S ECONOMIC GROWTH

I support the concept of providing an adjustment in the amount of social security benefits to provide constant dollars to recipients. The committee has proposed achieving this result by indexing social security on the basis of wage increases.

I oppose this method of indexing because it is very expensive and because it draws invidious and unjustified distinctions between retirees of today and retirees 20 years from today. Thus, under wage indexing,



a worker who retires today will receive a smaller benefit *in real dollars* than a worker with an identical wage history who retires 20 years from now even though both may be alive and drawing benefits. Under wage indexing, the current retiree is excluded from sharing in the real growth of our Nation's productivity.

I favor price indexing. It protects workers against the erosion of benefits as a result of inflation. At the same time, while wage indexing only cuts the long-range deficit in half, price indexing reduces the deficit totally, placing the system in long-range actuarial balance. In this way, it makes unnecessary additional rate increases of 1.45 percent which will be required if wage indexing is adopted. Finally, it provides Congress with the flexibility to make appropriate adjustments in the level of benefits which will benefit not only present workers, but also those who have already retired.

#### IV. ALTERNATIVE METHODS ARE AVAILABLE FOR FINANCING SOCIAL SECURITY

My comments so far have been essentially negative. I have said what I do not think should be done. I believe the following proposals, together with price indexing, offer a more equitable and rational solution to the short- and long-range deficits of social security.

##### A. FEDERAL EMPLOYEES SHOULD BE COVERED BY SOCIAL SECURITY

Bringing Federal employees under social security would substantially contribute to meeting the \$70 billion shortfall. The Social Security Administration has estimated that \$33.7 billion would be raised for social security in the first 5 years Federal employees were covered. This is because in the first few years of coverage, many more employees would be paying into social security than would be drawing out benefits. Moreover, the Social Security Administration has estimated that bringing in Federal employees would reduce the long-range social security deficit in part as a result of eliminating the abuse known as double-dipping (the process which permits retired Federal employees to supplement their civil service pensions by working just enough years to qualify for the minimum social security benefit).

It is essential that Federal employees who are brought under social security not receive reduced benefits and not have to pay higher contributions. This result can be achieved by integrating the Federal retirement systems with social security, in the manner of many private pension plans. Indeed, I would only propose coverage of Federal employees if their aggregate benefits were not reduced and their aggregate contributions were no higher. This can be accomplished because the liabilities of the civil service retirement trust fund will be decreasing as social security benefits accrue.

Moreover, if Federal employees were brought under social security, their benefits would be slightly improved. Social security insures that employees and their families have adequate income not only at retirement but also in the event of disability or death. Although the civil service retirement system provides coverage in the event of disability or death, the coverage is not as complete as the social security coverage.

For example, civil service coverage does not begin until a worker has had 5 years of employment with the Government. In contrast, under social security, younger workers need less than 5 years of employment for coverage. Even after an employee has completed 5 years of service and becomes eligible for protection, many more years of service are required before survivorship protection for families and disability protection for a worker with dependents reaches the level provided under social security.

Inclusion of Federal employees under social security is consistent with the original intent of social security and has been recommended by every social security advisory group since 1938. With social security coverage, Federal employees will be no worse off than now and the system will come closer to its intended role as a universal floor of protection for all working Americans.

#### B. A SURCHARGE SHOULD BE IMPOSED ON CORPORATE AND PERSONAL INCOME TAXES

In my judgment, a surcharge on the corporate and personal income tax is the fairest and most equitable method of meeting the remainder of the social security deficit. This is a difficult recommendation for me to make because I am convinced that taxes are too high and impose too much of a burden on individuals and the economy.

I am committed to reducing taxes. I think it is the most important objective of "tax reform." Nevertheless, failure to insure the financial viability of the social security system is unthinkable. Therefore, the only question is who should bear the cost of providing the necessary revenue.

It is my view that the cost should be spread equitably throughout society rather than borne most heavily by only certain employers (raising the employers' base) or by low- and middle-income employees (raising the rate or the base on employees). The most equitable method of spreading the increased burden throughout society and yet retaining the identifiable character of a separate social security tax is a surcharge on the income tax.

A surtax is similar to the use of general revenues, but it has several advantages over the use of Treasury funds. It raises real dollars rather than simply increasing the deficit. It preserves the direct linkage between the individual and social security contributions. By retaining a link between the cost of social security and the benefits, there is no open invitation to "raid the Treasury" irresponsibly. Furthermore, a surtax encourages persons who are not covered under social security, like employees of some State and local governments, to join the system since they would already be contributing to it.

These three proposals taken together—inclusion of Federal employees, a 3-percent corporate and personal income tax and price indexing—leave the cash programs of social security in short-range and long-range actuarial balance. They are the most rational, fairest, and most equitable solution to the unpleasant and difficult task of raising \$70 billion.

V. IF PAYROLL TAXES ARE USED TO FINANCE SOME OR ALL OF THE SOCIAL SECURITY DEFICIT, MEANINGFUL FISCAL RELIEF FOR STATE AND LOCAL GOVERNMENTS AND NONPROFIT ORGANIZATIONS MUST BE INCLUDED

The committee's social security tax proposals, together with already scheduled increases, will cause the social security taxes of State and local governments and nonprofit organizations to more than double in 5 years and to more than triple in 10 years—from an aggregate tax of \$6.6 billion to a tax of \$21.6 billion.

The financial crisis which confronts our cities and other governmental agencies is widespread and extremely serious. All too often we have witnessed the curtailment of essential municipal and educational services or strikes for higher wages by teachers, firefighters, and other governmental workers. The next tax proposal will only make the financial plight of our local governmental agencies worse.

In 1976, Toledo, Ohio, was forced to shut its schools for the month of December because of the city's financial condition. Similarly, Detroit laid off or eliminated positions for over 4,100 employees, reduced salaries by 8 percent in each department, cut funds for welfare services and prison care, and still projected a large 1976 deficit. On March 9, 1976, the New York Times began a story with the following disturbing lead:

"The City of Buffalo, which had been expected to run out of cash tomorrow, arranged to borrow \$2 million today. . . . The loan will enable the city government and its Board of Education to meet their cash needs until Friday. . . ."

Many nonprofit organizations are facing similar financial crunches. The Young Women's Christian Association of the National Capital Area has sustained deficits averaging \$50,000 in each of the last 7 years on an annual budget of \$2 million. Colleges are struggling against ever increasing operating costs. Often tuition has been raised to the point where it is out of the financial reach of many students.

In this period of severe financial crisis for many nonprofit organizations, social security taxes will be raised by spectacular amounts. Two years from now, the American Cancer Society in Michigan, for example, will have an increase of over 25 percent in its social security tax liability under the committee's proposal. The University of Alabama in Tuscaloosa in 1981 will be paying \$864,000 more than it paid last year, an increase of 50 percent. Similarly, Hampshire College in Amherst, Mass., in 1981 will be paying \$107,287 more or an increase of 61 percent.

These organizations have little or no capability of passing on the increased cost. Moreover, unlike private, profitmaking employers, the additional social security tax payments will not be reflected in lower income taxes. As a result, these public and nonprofit employers will have to bear 100 percent of the increased liability themselves. They must either curtail their activities or raise more money, either through more contributions in the case of nonprofits or more local taxes in the case of public employers, to meet the full increased liability. In contrast, profitmaking employers will bear only a portion of the increase, the rest being an offset against Federal and State income tax liabilities



which would otherwise be payable. Every increase profitmaking employers have in social security taxes translates into an operating cost of only a portion of the increase.

The committee has recognized the need for some tax relief for these employers as well as the basic inequity in tax treatment between these employers and for-profit employers. The committee has agreed to a refundable tax credit for these employers—a refund of a portion of their social security taxes from general revenues—but has adopted a clumsy mechanism which produces unfair and arbitrary results.

In order to receive a refund, an employer must pay its employees above the wage base. In 1979, the wage base will be close to \$20,000 and will be over \$30,000 by 1985.

As I have shown above, the bulk of the increase in the liability for this group of employers results from rate increases, not base increases.

Therefore, the refund in the committee proposal is of some help to well-endowed foundations and other employers with highly paid professional employees, but the vast majority of charitable employers will receive almost no benefit at all. In 1979, for example, the Salvation Army, covering Virginia, half of West Virginia, Washington, D.C., and part of Maryland, will pay social security taxes of almost \$86,000—an increase of \$13,000 over its present liability—and will receive a refund of \$7.67. The Campfire Girls will receive nothing, because the organization will not be paying anyone over \$19,500 in 1979, notwithstanding a tax increase of 40 percent. New Haven, Conn., will have to pay an additional \$40,000 in social security tax but will receive no refund.

Moreover, even those employers who are benefited will only be benefited for a few years. The committee's proposal is designed to phase out just as the increases are beginning to really rise. As the future rate increases become effective and the employee wage base rises, the refund disappears. In 1987, for example, the costs to these employers will be up 227 percent; the refund will represent only 6 percent of this total.

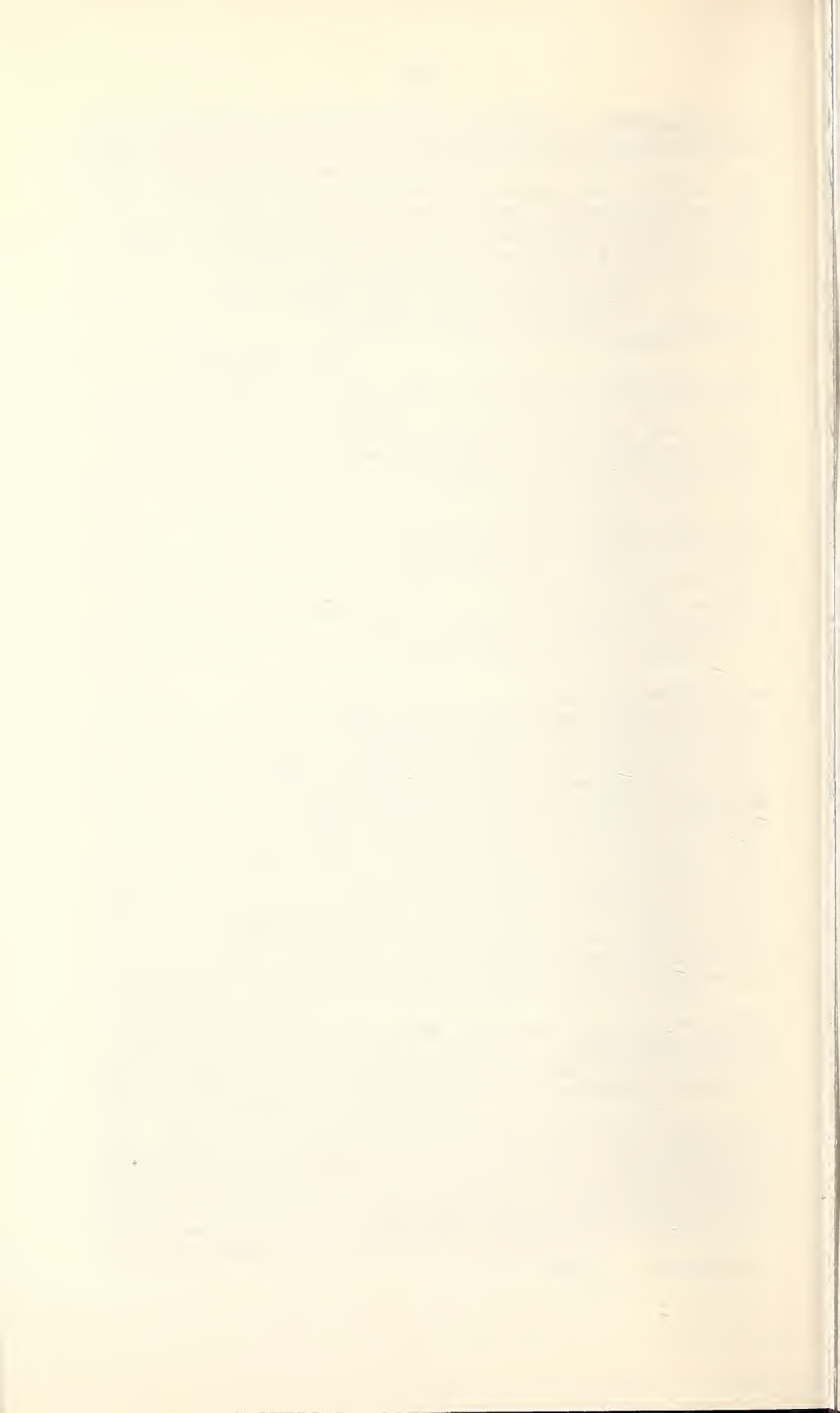
These employers, unlike most, may under law voluntarily withdraw from social security, and they have been withdrawing at an accelerating rate. If New York City employees alone were to withdraw from social security, the trust funds would lose \$3.1 billion in the next 4 years; 219 governmental units representing 81,534 employees have notices to withdraw currently pending before the Social Security Administration. If enough public and nonprofit employers withdrew, the tax increases could backfire, causing the trust funds to lose more revenue than they gained.

I agree with the majority of the committee that some sort of tax relief is needed for this group of employers. But the relief should be based on total liability, not on how much they pay their employees. It should be a permanent and stable refund, not a decreasing amount each year.

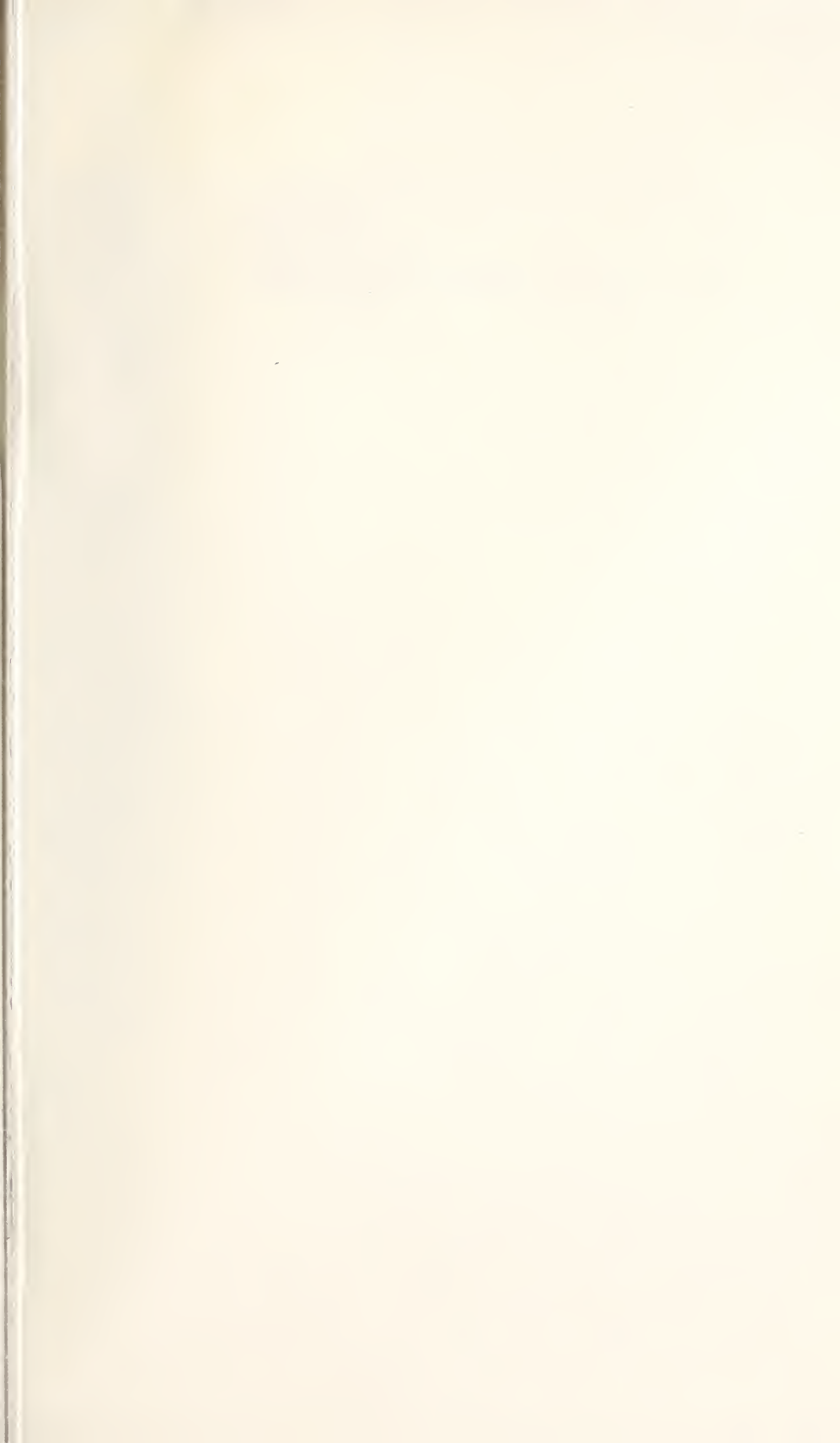
At a time when we are tripling the social security tax of these employers, I believe we should cushion the increase in some meaningful way. At a time when profitmaking employers will offset \$23 billion in Federal income tax otherwise payable, I believe we can refund the public and nonprofit employers \$1 billion, the approximate cost of a flat 10-percent refund of total social security tax liability.

JOHN C. DANFORTH.











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